

Foreword by the President

If the performance of the Hungarian economy were to be evaluated in terms of just two main indicators, GDP growth and the rate of inflation, the results for 1999 would appear to fall short of those for the previous year. GDP growth faltered in 1999, slipping to 4.5%, from 4.9% in 1998, while the rate of inflation declined only for the year as a whole, and not in a December-on-December comparison.

How is it then possible that 1999 is undisputedly regarded as having been a successful year? How could the developments of 1999 make a major contribution to convincing the international business community of Hungary's robust economic growth and steady progress on the path towards European integration? Why did one investment-rating agency after the other give Hungary a better rating in 1999?

This paradox is easy to resolve. In the course of 1999, the economy was plagued by a series of adverse external effects. Early in the year, there was a doom and gloom feeling among investors in respect of Hungarian economic prospects. But as the year wore on, no overwhelming crisis developed: quite on the contrary, there was even an improvement in the least likely quarter, in the current account.

What was the public so afraid of?

The rise in world oil prices threatened the steady decline in inflation, and the repercussions of the Russian crisis – together with the weak European economic activity partially associated therewith – jeopardised exports, and consequently, economic growth as well as the external balance, while the financial consequences of weather-induced disasters posed a threat to the general government balance.

In addition to its impact on the economic outlook, the Russian financial crisis also heightened

international investor caution in general. For countries like Hungary, which have in the past relied heavily on foreign loans, such a change in perception could easily have pushed up the interest premium on the national debt.

Thus, Hungary was being watched with feelings of rising concern and doubt by a number of investors who were very worried about risks. Their uncertainty was aggravated as they were not sure about the strength of the Hungarian authorities' commitment to a balanced economic policy.

These concerns were dispelled by the events of 1999, which consistently provided clear evidence of Hungary's sound economic health. Although Hungary was also unable to avoid a slowdown in growth, the country's economy was able to respond flexibly to the challenges. Domestic expenditures – in particular with regard to investment and government spending – were curbed, and the overall decline in demand for exports was offset by an improvement in competitiveness and market positions. On the whole, the crisis gave the country an opportunity to provide overwhelming proof of the existence of strong economic fundamentals. This strength stands out particularly well in comparison with other countries in the region facing similar conditions. Hungary recorded the fastest growth in the area both in 1998 and 1999 and, just as important, managed to keep growth on a sustainable path, without jeopardising economic equilibrium.

As the year progressed it became clear that the Hungarian government was adamantly committed to adhering to the objectives associated with budgetary equilibrium, even in the face of adverse conditions. Confidence was further boosted when monetary and exchange rate policy proved to be capable of managing the finan-

cial upheavals, with neither the exchange rate path nor the course of disinflation suffering a loss of credibility. The narrow-band exchange rate system, which, helped by sound fundamentals in 1998, proved to be capable of weathering financial turbulences, such as the Russian crisis, continued to play a key role in 1999 in the control of inflation expectations. Compared with other countries in the area, in 1999 for the first time, the rate of Hungarian disinflation exceeded that in Poland, and then in 2000, the rate of inflation in Hungary dropped below the Polish rate.

All in all, 1999 was not a year of spectacular achievements, but a year that saw the reinforcement of Hungary's economic fundamentals. The excessive growth in domestic demand seen in 1998 was reigned in, in order to satisfy the requirements of economic equilibrium. There was improvement in the government balance, and the current account balance and investor confidence strengthened. The underlying principle of this policy is that long-term rapid growth must be based on a solid foundation of economic stability. This requires the maintenance of predictable disinflation and adherence to a balanced ratio

between the exchange rate of the domestic currency and inflation, as well as the prevention of both external and internal indebtedness. This is the only means by which the public's trust in the future of the economy can be reinforced and investors' interest maintained, together with the continuation of robust growth. These are, in turn, indispensable for the achievement of our common goal: a steady and sustainable improvement in the quality of life of the Hungarian people.

The success of this policy so far is reflected in the significant improvement in economic conditions at the beginning of 2000. There appear to be no obstacles to rapid, sustainable growth. In the meantime, we must continue to ensure that our sense of proportion remains intact and our patience inexhaustible.

With these thoughts, I commend to you the 1999 Annual Report of the National Bank of Hungary.


Dr. György Surányi

PART ONE

Main characteristics of the the National Bank of Hungary's in 1999

1 Monetary policy

The policy target of the National Bank of Hungary is to achieve a **sustainable decline in inflation** and approach the rate of inflation prevailing in the European Union. Predictability and a moderate level of interest rates, concomitant with an environment of low inflation, promote long-term, rapid economic growth. Achievement of the inflation target is assisted by a system of exchange rates based on a pre-announced crawling peg. This system promotes the emergence of a nominal path that poses no dangers to economic equilibrium, but ensures the convergence of the domestic rate of inflation towards the level of Hungary's main trading partners.

Economic stability is supported by monetary policy, via the maintenance of its **intermediate target, an exchange rate path based on the pre-announced devaluation of the forint**. Under the current system, regular changes in the rate of crawl promote convergence of the domestic price level towards the low rate of inflation in the euro area, both directly and indirectly, by influencing the prices of tradables and inflation expectations, respectively. The exchange rate path cannot influence expectations effectively unless it is credible, and the condition for credibility is the ability of the designated nominal path to preserve macroeconomic equilibrium. Therefore, expected changes in aggregate demand and supply, and the flexibility of fiscal policy are both taken into account in determining the exchange rate path.

The level of money market interest rates, constituting the **operative objective** of monetary policy, is set with a view to maintaining the announced exchange rate path by influencing the demand for forints. The determinants of forint interest rates are the pre-announced rate of devaluation, the expected intra-band shifts in the exchange rate, foreign interest rates, and the required amount of risk premium. The objective of the central bank's interest rate policy is to smooth out any fluctuations in interest rates caused by changes in the international financial environment, but not justified by domestic economic fundamentals. At the same time, the desire to maintain the credibility of the exchange rates system prevents the central bank from permanently diverting the level of domestic interest rates from the level required by market participants.

1.1 Implementation of monetary policy targets

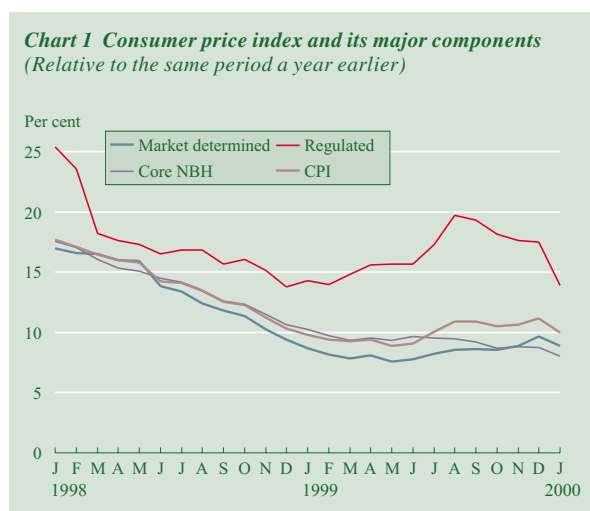
In the view of the National Bank of Hungary there are **three factors** which essentially define the **course of inflation** and which must be continuously monitored when formulating monetary policy. The most important factor in terms of achieving sustainable disinflation is the development of **aggregate demand and supply**. The second factor consists of **inflation expectations**, as these play a significant role both in pricing behaviour and the pattern of nominal wages, a major indica-

tor of the sustainability of the designated nominal path. The third factor is **imported inflation**, which is the sum of the depreciation of the forint and foreign inflation. These factors determine the trend of inflation, measured by the Bank using the “*core*” inflation index.

In 1999 the **consumer price index** rose by 10% on average, compared to 14.3% in 1998. In contrast to the growth trend typical of previous years, prices increased at a slower pace during the first half of 1999, with consumer price inflation returning to the single-digit range in the first quarter for the first time since 1987. There was, however, another temporary upward movement in the price rate from July 1999, but this trend then returned to the single-digit range by February 2000. The **core inflation index**,¹ which filters out the effects of seasonal variations in the prices of foodstuffs, petrol and certain energy sources from headline inflation, indicated a steady decline in inflation, down to **7.54% in March 2000**, compared with the end-1998 rate of 10.7%. Along with disinflation, nominal wage growth also slowed somewhat: compared with an 18.7% average rate in 1998, wage inflation amounted to 15.9% in 1999. Wage growth was in line with the designated nominal path, owing to considerably better corporate sector profitability in 1999 and the rising share of ownership incomes within GDP.

Throughout the course of disinflation, changes in the consumer price index have been determined by individual effects, such as tax changes causing one-off movements in the price level, central price measures and supply shocks. The **higher-than-expected rate of inflation in 1999** was essentially **due to factors falling outside the scope of monetary policy**.

The interruption in the downward trend of consumer prices during the year was primarily caused by increases in **regulated prices**, with 2.8% of the 11.2% rate of inflation in December 1999 resulting from this category. The restructuring of the pharmaceutical price subsidy system added roughly 1% to the annual rate. In addition, other centrally-controlled service prices also rose faster than inflation. The exceptional increases in household telephone and pharmaceuticals prices can be attributed to measures designed to put an end to previous price distortions and subsidy anomalies. The price reducing effect of the resulting adjustment process only appears in the statistics after a certain delay, because of measurement methodology. In 2000 centrally-controlled service price increases are projected to remain subdued, which is expected to exert downward pressure on inflation (*see Chart 1*).



The rapid rise in **food prices** from the latter half of 1999 also slowed the pace of disinflation. The temporary acceleration of prices in this category can be seen as a rebalancing effect, i.e. a correction for the deflation experienced in 1998.

A third significant inflationary factor lies in the increases in **world energy prices**. The initial impact of these prices on market-determined *household energy* inflation was felt in the second half of 1999, while in respect of the regulated category, in the new price-setting period, i.e. the second half of 2000, prices are projected to rise at a higher rate.

¹ For more details on the calculation of the core inflation index, see Box II-1.

It should be emphasised that in the course of forecasting inflation and setting the path for the exchange rate the Government and the Bank take into account the temporary nature of supply shocks. Thus, neither the temporary decreases in food prices seen after the autumn of 1998, nor their ensuing increase affected the determination of the exchange rate path. This is because by announcing the exchange rate path in advance, the Government and the Bank intend to affect the long-term trend of inflation by influencing expectations. Similarly, the impact of energy price increases on inflation calls for no alteration in the pre-announced exchange rate path. The reason for this is that the factors restricting disinflation have equally affected the euro area and most of Hungary's trade competitors, and thus have no effect on the competitiveness of Hungarian producers.

The favourable long-term trend in disinflation is supported by the fact that **the inflation differential relative to the euro area** has continued to narrow, falling from 9.5% at end-1998 to 7.3% in January 2000. *Industrial goods* price inflation (6.2% in January 2000), excluding commodities directly disciplined by the exchange rate, and *market services* price inflation (10.6% in January 2000), which reacts most quickly to growth in demand diverging from supply, have both continued to decline. The favourable trend in inflation enabled the Bank to announce another decrease in the devaluation rate in December 1999, bringing down the pre-announced annual rate to below 4% from April 2000.

Of the factors determining inflation over the long term, the development of **demand and supply** continued to facilitate the process of disinflation. In the first half of the year external demand grew at a slower-than-expected pace, owing to the impact of the Russian crisis, and uncertainty about sales prospects also increased. The adverse turn in terms of export prospects also dampened domestic demand in the private sector. This resulted in a slowdown in GDP growth in the first half of 1999. GDP growth was 3.3% in the first quarter and 3.8% in the second. Demand for exports picked up in the second half, growing at a rate similar to that in 1997 in the final quarter, which gave impetus to investment activity. Thanks to the simultaneous robust growth in domestic and foreign demand, the final quarter of 1999 saw an estimated 5.6% rise in gross value added. As a result of the slower growth in the first half and the pick-up in the second half, GDP is estimated to have expanded by 4.4% in 1999.

The development of the Hungarian economy in 1999 was most strongly influenced by the **level of economic activity of our main trading partners**. In the aftermath of the collapse of the Russian market, there was a substantial drop-off in the growth of demand within the European Union, with most of Hungary's partners in Central and Eastern Europe also hit by recession. Owing to less robust world economic growth, the first half of the year was characterised by excess supply in the market of raw materials and food. In addition, the war in Kosovo and internal political changes in Russia also aggravated the uncertainties surrounding Hungarian export prospects. From the second half, however, there was a pick-up in growth in the euro area, together with signs of recovery in CIS and CEFTA countries. It was partly these favourable changes in demand and partly the capacity-expanding effect of new investments that were reflected in the upswing of foreign trade. According to Bank estimates the annualised growth rates of export and import volumes stood at approximately 25% and 19%, respectively, in 1999 Q4.

The adverse cyclical changes early in the year also slowed the growth of **domestic demand**. Investment declined in the corporate sector first and foremost, but for the year as a whole the public sector also put slight downward pressure on demand. In contrast, household consumption expanded at a rate similar to that seen in 1998.

Due to sales uncertainties, **investment demand in the private sector** expanded at a considerably slower pace than the rate of over 10% recorded in 1998. In the first two quarters of 1999 fixed capital formation growth declined to 6.8% on average. However, the upswing in export demand in the latter half of 1999 and steadily growing consumer spending foreshadowed stronger economic growth, which, in turn, boosted investor confidence. In areas of the economy dominated by the private sector, investment growth appeared to turn around in the fourth quarter. Against the backdrop of the relatively low level of capacity utilisation, however, firms' investment activity cannot be expected to accelerate as quickly as in 1998. Corporate sector demand growth was further hampered by the strong rise in stock levels in the wake of the collapse of Eastern markets in 1998 Q3 and Q4. These stocks were gradually run down over the course of the year.

There have been some major changes in the way households adapted to the cyclical position of the economy. In 1999, **households' real incomes** rose by 3.5% compared with 2.9% a year earlier. Operational income growth, which filters out the effect of changes in inflation on interest incomes, accelerated from 3.8% to 4.3% in 1999. It was labour earnings that displayed the fastest growth, while pecuniary benefits (particularly unemployment benefits) and mixed incomes remained virtually unchanged in real terms relative to the previous year. Consumption continued to rise more strongly than income growth, at a rate of 5%. One inference from this is that individuals expect their incomes to continue rising over the long term. Furthermore, thanks to advances in financial intermediation, a large number of households which were formerly restricted by liquidity constraints have obtained access to consumer credit, enabling them to maintain the desired level of consumption growth in spite of slower rises in incomes, which they assume to be a temporary phenomenon. In the final quarter, credit-financed consumption accounted for 1.5% of incomes.

Simultaneously with the rapid expansion of borrowing, **gross household savings** fell on average by 1% relative to 1998. There were significant changes in the breakdown of gross savings, with the share of investment up and financial savings down by 2.5% on a year earlier. The fall in the financial saving rate in 1999 was partly due to the correction for the much higher rate (around 7%) in 1998 than in previous years (roughly 5%). Nevertheless, buoyant consumer borrowing and the expected pick-up in residential construction related credit may bring about a longer-term lower financial saving rate, relative to previous years, a fact that should be taken into consideration when formulating an economic policy aimed at maintaining macroeconomic equilibrium.

In 1998, general government expanded demand by 0.5% of GDP, which contributed to a deterioration in the external position. The **government's primary balance** appeared to show strong volatility in the course of 1999, but for the year as a whole it caused aggregate demand to contract by 0.4% of GDP. The fiscal position was favourable, in spite of the fact that both average growth and inflation fell short of the planned levels, and there was a drop in government funds for redistribution as a percentage of GDP, i.e. primary receipts increased at a slower pace than economic growth. This was due to the fact that primary expenditures rose at an even lower rate, thanks to the budget's rapid response to the deviation of economic developments from plans and action to freeze budget reserves amounting to 0.4% of GDP, as well as to cut back on the volume of central investment projects.

Due to the high level of investment activity in 1998 and strengthening foreign direct investment in 1999, **domestic supply** grew robustly and **capacities** expanded. Slower economic activity early in the year was reflected in the rate of capacity utilisation. The surge in economic growth

was again paralleled by a higher utilisation rate as reflected by manufacturing sector indices; this rate, however, fell short of the level typical for the 1997–98 period. By contrast, potential labour force utilisation gained momentum as a delayed effect of the business cycle recovery of a year earlier, bringing **the rate of unemployment to below 7%**. The activity rate was up by over 1 percentage point over the same period of 1998, amounting to 53.4%, which indicates a return to the levels seen in 1994. These favourable labour market developments were partially due to demographic changes, as the proportion of young people in the labour force rose significantly and the higher retirement age also contributed to the rise in activity.

In terms of competitiveness, there is no obstacle to a further expansion of manufacturing supply. The unit labour cost-based real exchange rate index, which is the best measure of corporate profitability, depreciated considerably, by nearly 6% during 1999. This improvement was essentially due to the exceptional growth in manufacturing output over the second half of the year. Other factors boosting company profitability also included a simultaneous decline in manufacturing sector wages with disinflation (the average 17.8% wage growth in 1998 fell to 15% in 1999), and a decrease in wage burdens, such as employees' social security contributions (corporate sector competitiveness improved even after adjustment for the profitability boosting effect of the reduction in contributions).

Compared with the 18.7% growth rate recorded for the final quarter of 1998, **wage inflation** fell to 15.4% in 1999 Q4. The rate of private sector wage growth continued to decline, down to 13.2% in the final quarter. Wage growth in the public sector showed high fluctuations, mostly on account of temporary factors, such as the different timing of wage increases compared to the previous year and the timing of *irregular payments*. After adjusting for distortions, public sector wage growth also appeared to slow, though the corrected rate remained about 4% above the private sector rate.

In terms of annual averages, the **external financing requirement** in 1998 and 1999 was at a nearly identical level, namely 4.3% of GDP. By contrast, the sub-annual growth rates showed a different pattern. Whereas there was a steady deterioration in the financing requirement in 1998, the beginning of an upturn was seen in 1999. The financing need of both the private sector and general government developed along the lines seen in the previous year. Within the private sector, rising net corporate savings offset the effect of households' declining financing capacity. The fall in the financing requirements of companies was broadly due to the decline in investment activity. An additional factor was the increase in the GDP share of ownership-related incomes. By contrast, household financing capacity was down by 2% of GDP relative to 1998, due equally to consumption rising faster than incomes and to stronger household investment. Since during the year the government corrected its net financing requirement, which had risen during the first quarter, its contribution to whole-economy external financing needs remained unchanged for the year as a whole.

The fall in the **corporate sector's financing requirement** in 1999 was partly due to temporary factors. The prospective upturn in investment activity is likely to boost companies' need for funds. This effect will probably be offset by the continued increase in the GDP share of ownership-linked incomes. Nevertheless, a rearrangement of the magnitude seen in 1999, also supported by a cut in compulsory contribution rates, is not likely in 2000. By contrast, the changes affecting households' propensity to save seem to be mostly the result of long-term effects, such as the fall in the number of liquidity-constrained households and the widespread use of consumer and home-building credit. These effects are expected to maintain savings for several years at the levels seen in 1999. Thus, the

possibility exists that a further acceleration in economic growth, particularly the strong rise in investment activity, will worsen the external position of the private sector. In order to assist rapid but sustainable economic growth the 2000 Budget Act calls for the continuation of a fiscal policy with a slightly restrictive effect on the expansion of aggregate demand.

In 1998, stronger economic growth was accompanied by a deterioration in the **current account** of the balance of payments, which, in addition to domestic absorption growth higher than GDP growth was due to the direct and indirect impact of the Russian crisis from the middle of the year. In early 1999, expectations of a weaker external balance were reinforced by the slowing activity in the EU, the protracted impact of the Russian crisis, recession in CEFTA countries and the outbreak of the war in Yugoslavia. Import demand growth remained subdued owing to the relatively stable expansion of exports to developed countries and the rapid adjustment of the economy. This led to a stabilisation of the external imbalance in 1999 Q1, and then, as a result of the upswing in external demand, to an improvement in the external position for the year as a whole, relative to 1998.

The current account deficit (EUR 1,970 million) fell to 4.3% of GDP, compared with 4.9% in 1998. Against the background of a virtually unchanged balance of trade, the lower credit side of services led to a deterioration of EUR 250 million in the balance of real economy transactions, which was, however, offset by the drop in the debit side of income and current transfers. Within the latter, the annual amount of profit repatriation associated with foreign direct investment remained at the 1998 level in nominal terms (down as a percentage of GDP), although the timing of profit outflows differed from that of 1998. Income transfers related to debt, however, continued to decline as a result of lower net interest payments by the Government and the Bank. This was because the majority of loans with less favourable interest payment conditions were serviced in advance, while more recent loans were extended on better conditions than those linked to maturing loans, thanks to the steadily improving perception of Hungary by money market participants.

As the current account deficit was exceeded by the amount of net non-debt generating inflow of capital (such as net foreign direct investment and net share purchases of the portfolio diversification type by non-Hungarian residents), net external debt continued its downward trend. In late 1999, the public sector's net foreign debt stood at 14.8% of GDP (EUR 6.8 billion), compared with 18.8% at end-1998. The share of the Bank and the Government in net foreign debt sank below 18% (EUR 1.2 billion), with the formerly sovereign borrower central bank taking the position of net foreign lender. The private sector, however, appeared to be a net borrower in respect of credit transactions as well, which caused its net foreign debt to increase, even if only slightly.

In the second half of the year, international reserves grew considerably, amounting to EUR 10.9 billion by late December.

1.2 Monetary policy measures in 1999

The volatility of interest rate premia on forint investments had a major impact on the general level of domestic interest rates. The high interest rate premium of around 550 basis points seen in the wake of the Russian crisis lingered on into the first nine months of 1999. In addition to the unfavourable changes in international investor preferences in connection with emerging market economies, this higher premium was also due to the war in Kosovo and the uncertainty regarding macroeconomic equilibrium. From autumn 1999, however, the premium fell by roughly 300 basis

points, leading first to a decline in long-term rates, which then spread to the shorter end of the yield curve from January 2000. This fall in the premium can be attributed to several factors:

- A recovery from the low level of confidence dominating the general perception of emerging market economies in the wake of the Russian crisis (contagion effect), which caused a jump in risk premium rates over the past one and a half years.
- Domestic macroeconomic indicators have improved compared with the period prior to the financial upheavals in Russia. Compared to the first half of 1998, inflation is lower and both the external balance and the budget position are stronger. The combination of these improved data resulted in lower country-specific rates for interest premium.
- In addition to the aforementioned long-term effects, another factor in the rapid decrease of yields early in 2000 was that at the end of 1999 the fall of short-term yields slowed on account of Y2K concerns (while there was already a 100–200 basis-point drop in the rate of interest on long-term yields in Q4). Without this effect, the fall would presumably have taken place gradually and at a slower pace.
- As a result of short-term euro yields being lower than dollar yields, the change in the composition of the currency basket justified an approximately 60-basis-point cut in the premium.

The most important change in **monetary conditions** in 1999 affected the path of the real exchange rate. Although the Government and the Bank kept pace with the faster-than-expected rate of disinflation in the course of 1998, the steady appreciation of the **real exchange rate** seen in preceding years seemed to have switched into reverse gear in the second half of 1998. Following stabilisation of the adverse capital market situation in the latter half of 1998, the Government and the Bank cut the monthly rate of devaluation by 0.1 percentage points on three occasions during 1999, in order to avoid losses induced by inflation. In consequence, the real exchange rate reverted to its path of real appreciation seen in previous years. The favourable turn in inflationary developments enabled the monetary authorities to announce another cut in the rate of devaluation in late December, becoming effective in April 2000.

Changes in monetary conditions in the course of 1999 exhibited a pattern contrary to those in 1998. By January 2000 the gradual decline in real interest rates, from their peak in the aftermath of the Russian crisis, had brought real rates on three-month market instruments to 3%. Simulta-

Chart 2 Interest rate premium on three-month Treasury bills since 1998

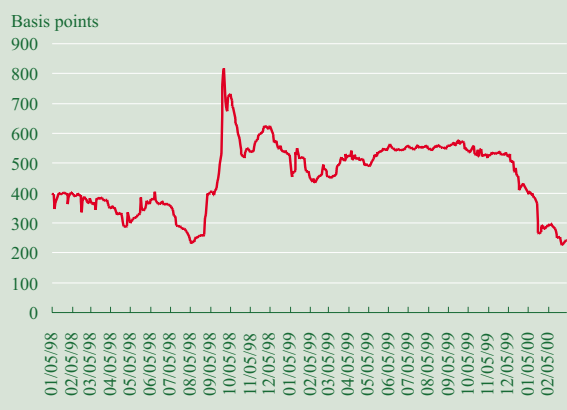
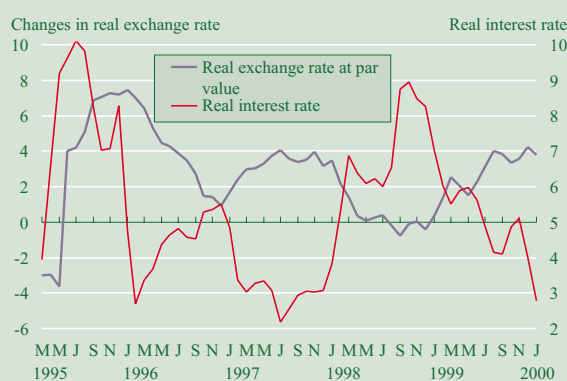
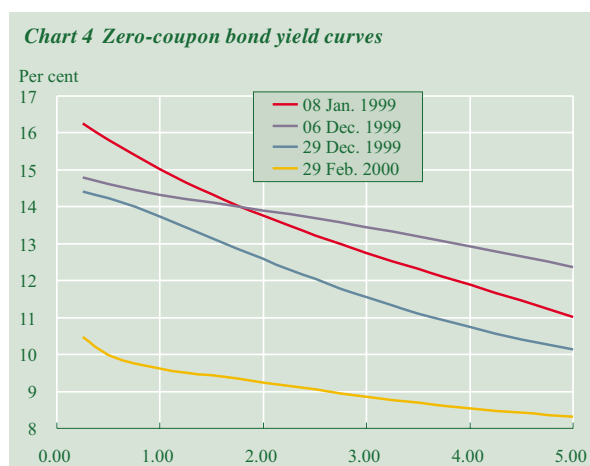


Chart 3 Monetary conditions*



* The chart shows real interest rates calculated on the basis of yields on three-month Treasury bills. The real exchange rate index, reflecting monetary conditions, does not correspond to the indicators measuring competitiveness, presented later. The real exchange rate here denotes the ratio of the exchange rate change over the next three months and forward-looking inflation.



yields fluctuating around 13–14% and 12%, respectively. From September, yields fell sharply, to below 10% at three and five-year maturities. This decline in long-term interest rate expectations was primarily due to domestic factors, but the decrease in the EMBI+ indicator, reflecting the general perception of emerging economies, also had a beneficial impact on forint interest rates. Long-term interest rates are becoming increasingly subject to the activity of “convergence players”. Accession to the European Union is likely to bring the level of domestic interest rates down, which is lending a special allure to investing in long-term forint-denominated instruments. That is partly why three-year forward rates sank below 8% by the end of February.

Money and capital market demand for forint instruments was highly volatile during 1999. While there was a substantial inflow of non-interest sensitive capital for the year as a whole, interest sensitive inflow was virtually non-existent in the first half of the year, and there were even some outflows of speculative items. In the final quarter of 1999, however, the inflow of interest sensitive capital seemed to resume, alongside considerable direct and equity investment, leading to higher central bank intervention in the inter-bank foreign exchange market. The surplus liquidity in excess demand for the narrowest monetary aggregate was sterilised by the central bank. There was an increase in the stock of sterilisation instruments for 1999 as a whole, relative to the previous year, based on a decline in the first six months and a subsequent rise in the second half of the year, due to strong intervention. The liquidity-boosting impact of the demand for forints was sterilised through the increase in the stock of the Bank's two-week deposit facility. The monetary base rose at a steady pace during the year, in line with nominal GDP growth.

Sterilisation is costly for the central bank as interest rates paid on deposits held by the Bank are higher than the yield to be gained on the purchased currency (the sum of interest payments on the foreign currency and income from the change in cross-rates resulting from the depreciation of the forint). When calculating the genuine costs relevant for the whole economy, it is important to consider that in contrast with the current regime, an exchange rate system allowing greater volatility (where there is no need for sterilisation) would entail a higher level of risk premium. Under the existing pegged band regime, the risk premium paid on the stock of sterilisation instruments represents an extra cost. On the other hand, a floating rates system would entail higher rates of interest payable on the public sector debt, which could be of a different order of magnitude compared with the fiscal cost of sterilisation concomitant with the crawling peg system.

Domestic agents of the Hungarian economy continued to increase the portion of forint-denominated assets in their portfolios. Narrow money demand rose at a rate higher than

neously with the fall in real interest rates, the real exchange rate, in accordance with its designated path, had a tightening effect on monetary conditions. This implied a return to the monetary conditions seen in early 1998, in respect of both the real exchange rate and real interest rates.

After the correction of the rapid rise at all maturities in the yield curve in the wake of the Russian crisis, **long-term interest rate expectations of money and capital markets** stabilised over the first nine months of 1999, with three-year and five-year zero coupon bond

nominal GDP, also boosted by the precautionary cash stocking in December fuelled by concerns over the Y2K date change. In contrast with the situation in the wake of the Russian crisis, when there was a rearrangement of household portfolios in favour of safer bank assets, the final few months of 1999 saw the weight of non-bank assets increase substantially at the expense of deposit bank accounts, keeping the growth rate of broad money down (see Chart 5, Table 1, 2).

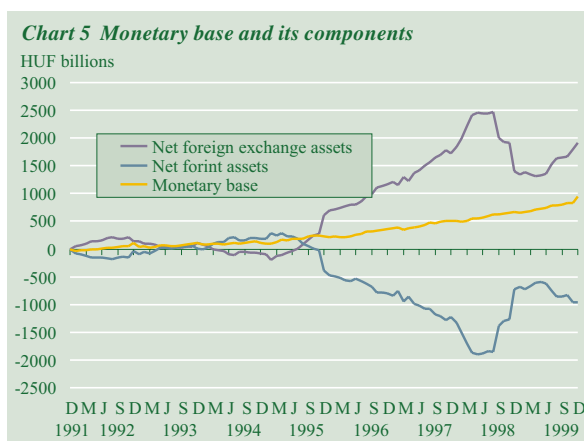


Table 1 Main macroeconomic indicators

	1995	1996	1997	1998	1999
	Actual				Estimate
Growth rate at constant prices, per cent					
GDP*	1.5	1.3	4.6	4.9	4.4
Of which: domestic absorption	-3.1	0.6	4.1	8.0	4.5
– final consumption	-6.6	-3.4	2.3	4.2	4.7
= household consumption	-7.1	-3.3	1.7	4.9	5.0
– investment	8.2	13.7	9.0	17.9	3.9
= fixed investment	-4.3	6.7	9.2	13.3	6.6
Exports (GDP)	13.4	8.4	26.3	17.1	13.5
Imports (GDP)	-0.7	6.2	24.8	23.7	13.1
Price indices					
Consumer price index (Dec./Dec.)	28.3	19.8	18.4	10.3	11.2
Core inflation index – (calculated by NBH Dec./Dec.)	27.7	20.0	18.3	10.8	8.7
Consumer price index (average)	28.2	23.6	18.3	14.3	10.0
Core inflation index – (average, calculated by NBH)	26.7	23.6	18.3	14.3	9.4
Domestic industrial price index (Dec./Dec.)	29.7	20.8	19.3	6.6	11.3
Domestic industrial price index (average)	27.3	22.6	20.8	10.6	7.1
Real effective exchange rate index**					
On CPI basis	3.2	-3.2	-4.2	0.5	-1.6
On PPI basis	5.6	-4.2	-4.9	3.8	-0.4
On unit labour cost basis (on value-added basis)	22.7	10.6	-0.6	4.5	5.6
as a percentage of GDP					
Deficit and debt					
Current account	-5.5	-3.8	-2.1	-4.9	-4.3
Balance of the budget (on cash flow basis) ¹	-6.7	-3.1	-4.9	-4.4	-3.9
Balance of the budget (on accrual basis)*	-7.1	-4.5	-5.3	-4.6	-4.6
Primary balance of the budget (accrual basis)*	1.8	4.3	2.9	1.9	1.7
Gross public debt	87.0	73.3	63.7	61.2	59.7
Net foreign debt***	34.1	27.9	20.3	18.8	14.8
EUR billions					
Trade balance (balance of payments)	-1.9	-2.1	-1.7	-2.1	-2.1
Current account	-1.9	-1.3	-0.8	-2.0	-2.0
Foreign direct investment in Hungary****	3.5	1.8	1.9	1.8	1.8
Net interest payments (as a % of exports of goods and services)	8.8	5.8	3.8	3.5	2.7
Saving rate [†] (%)	8.4	11.5	11.3	10.7	7.2
Unemployment rate** (%)	10.2	9.9	8.7	7.8	7.0
Gross average wages per capita*** (same period a year earlier = 100%)	16.8	20.4	22.3	18.3	16.1
Wage bill**** (same period a year earlier = 100%)	11.1	11.9	19.7	19.1	17.2
Net average wages per capita in real terms**** (same period a year earlier = 100%)	-12.2	-5	4.9	3.6	4.3

* These entries are partially based on Bank estimates, which may differ from data published by the Central Statistical Office, because the Bank's calculations have retroactively taken account of the changes in the balance of payments, caused by a correction which involved the separation of business travel and the revision of the management of foreign exchange purchased from Hungarian residents. The accrual-based balances are Bank estimates.

** Same period a year earlier = 100, higher than 100 = real depreciation; as of 1995, nominal exchange rate indices are calculated at a market exchange rate; deflators refer to the manufacturing industry.

*** Excluding inter-company loans, debt denominated in foreign currency.

**** Including inter-company loans.

[†] Net financial savings of households as a percentage of total household income (net financial savings do not include the sum of revaluation due to exchange rate changes).

[‡] Based on the labour market survey of the Central Statistical Office, according to ILO standards, unemployed as a percentage of active population.

^{‡‡} Full-time employees in the public sector and at businesses with over ten people.

^{‡‡‡} The net wage growth index is an estimate calculated by the Central Statistical Office. The modification of the rules on tax relief in 1999 and the introduction of the family tax deduction is estimated to modify the actual amount of tax payments, i.e. the difference between gross and net wages, by nearly 1% point. This, however, is not taken into account in CSO calculations.

¹ In 1998, ignoring the consolidation of Postabank.

Table 2 Main monetary indicators

	1995	1996	1997	1998	1999
	Average annual growth (%)				
Inflation (CPI)	28.2	23.6	18.3	14.3	10.0
Core inflation – (average calculated by the NBH)	26.7	23.6	18.3	14.3	9.4
Producer price index	28.9	21.8	20.4	11.3	5.1
Nominal devaluation rate of the forint's central parity	26.8	19.0	15.1	12.2	8.4
	Real growth of monetary aggregates (%)				
M0	-12.4	-7.3	0.1	1.8	6.4
M1	-15.9	-8.1	1.4	6.2	7.7
M3	-10.2	-0.5	0.8	2.7	6.7
M4	-6.0	3.1	7.4	8.0	8.8
	Real growth of loans extended by credit institutions (%)				
Corporate sector, foreign + domestic	1.3	-8.1	11.1	12.9	11.6
Corporate sector, domestic	-7.9	-7.9	20.8	12.9	8.4
Household	-27.8	-25.5	-17.9	-3.5	16.1
	End of period (%)				
Interest rates*					
Reverse repo/depo, one month**	–	22.25	19.75	16.75	14.25
Three-month Treasury bill	30.54	22.24	19.36	16.10	12.44
Twelve-month Treasury bill	31.30	21.46	19.20	15.88	12.33
Three-year government bond	–	21.47	18.25	14.18	10.75
Budapest Stock Exchange (BUX)	1,529	4,134	7,999	6,308	8,819
Interest rate premium (bsp)***	1,129	351	459	533	426
	EUR millions				
Conversion, demand for forints					
Conversion	2,527	3,069	3,416	862	2,890
Banking sector net foreign borrowing****	364	-603	369	311	299
Corporate sector net borrowing†	741	1,252	1,218	1,147	1,568

* From 1997, reference yields on government securities issued by the State Debt Management Agency.

** The Bank's one-month facility has been available since January 29, 1996. The period of the reverse deposit facility was reduced from one month to two weeks as of January 8, 1999.

*** Interest rate premium: Excess yield on three-month T-bill investment over the devaluation rate and foreign interest rates. The actual rate of devaluation was modified upon the official announcement of the change in the rate.

**** Without privatisation revenues, in a unified structure since 1996.

† Including inter-company loans, in a unified structure since 1996.

2 Operation of the banking system in 1999

The activity of the banking system in 1999 was marked by intense competition, an expansion in lending activity and a simultaneous deterioration in profitability, which was basically caused by inadequate cost efficiency practices at most banks. Despite declining profitability, consolidation and privatisation have made the Hungarian banking system a high-quality, stable system, well funded with capital and dominated by foreign professional owners. In contrast to previous years, its operation was not disturbed by insolvencies or prudential troubles.

The keen competition characteristic of the banking system in 1999 went hand in hand with strengthening differentiation. The large and medium-sized banks privatised over the course of the past few years had an extremely adverse year behind them, with the bulk of the losses they incurred stemming from inherited problems. Laying the groundwork for the sound operation and

adequate profitability of these privatised large and medium-sized banks is likely to take longer than expected. During 1999, assistance was provided in the form of major capital injections. The performance of the other members of the banking system was essentially influenced by size efficiency (balance sheet total of HUF 200–250 billion). Accordingly, there is a group of six or seven large and medium-sized banks that is capable of achieving solid profitability simultaneously with dynamic growth.

The **balance sheet total for the system of credit institutions** amounted to HUF 7,807 billion at the end of 1999, up from HUF 6,935 billion on December 31, 1998, representing an increase of 12.6% in nominal terms and 1.3% in real terms.² Growth was not evenly distributed over the year. The period without any major changes lasting until August was replaced by a recovery from September, gaining momentum towards the end of the year. As a result of stronger banking activity in segments with a greater element of risk – reflected in the declining trade in government securities and a growing stock of lending – the capital adequacy indicator of the banking system declined from 16.4% at end-1998 to 15.7% at end-1999, with on-balance-sheet profit included.

The **stock of lending to enterprises** rose by 19.6% in 1999, i.e. 10% in real terms,³ relative to the year before. The greatest increase was seen in long-term foreign exchange loans and current account credit. The expansion in lending activity seen towards the end of 1999 is likely to continue into 2000 given the fact that the value of customer risk weighted contingent liabilities has significantly outstripped the figure for the year before, and banks' business plans also project robust growth of 22% in 2000. Thus, again, enterprises seem to prefer saving in forint and borrowing in foreign currency terms.

In contrast to corporate borrowing, **credit to households** expanded steadily throughout the year, up by 33.5% on the previous year. Despite this dynamic growth, the share of household borrowing accounted for no more than 4.6% of the assets held by the system of credit institutions.

While, the **banking system's qualified portfolio** expanded in real terms in 1999, the holdings of assets posing some kind of problem fell short of the level for the previous year even in nominal terms. This improvement in the quality of the portfolio, however, was primarily due to the sale or writing off of problematic assets.

In terms of preliminary figures, **pre-tax profits of the banking system** for 1999 amounted to HUF 46 billion. Twenty-six banks recorded a profit (totalling HUF 82 billion) and 17 banks reported a loss (totalling HUF 36 billion) for the period. Pre-tax profits, excluding the performance of Postabank and MFB, amounted to HUF 42.2 billion in 1999, down by HUF 10.2 billion (20%) on the year before. The underlying factor in the decline of profitability is that, against the backdrop of a mere HUF 16.6 billion rise in operating profits, operating expenses grew by HUF 31.2 billion. The modest rise in operating profit was the result of a 2.3% decline in interest income and a 28.6% rise in profits on other financial and investment services, in particular foreign currency trade.

Money market rates continued to fall in 1999, although to a smaller extent than a year earlier. Breaking the downward trend, interest rates on forint-denominated volume-weighted credit to enterprises started to rise towards the end of the year (in November), probably associated with the risk premium on increased lending to medium-sized enterprises. Interest rates on household credit, most specifically on consumer credit, remained at high levels, implying that robust growth in this area is not accompanied with price competition.

² Deflated by the Dec.1999/Dec.1998 consumer price index (11.2%)

³ Deflated by the Dec.1999/Dec.1998 producer price index (8.7%)

3 Emission operations of the National Bank of Hungary in 1999

3.1 New banknote series

In 1999, the National Bank of Hungary completed the issue of a new banknote series launched in 1997. Since the replacement of old notes with new ones was accomplished at a rapid pace, the central bank shortened the transition period with both old and new banknotes simultaneously in circulation. Thus, as of August 31, 1999, only the six denominations of the new series are accepted as legal tender.

3.2 Notes and coin in circulation

Notes and coin in circulation were worth HUF 950.3 billion at the end of 1999, up by 29.1% on a year earlier. Not counting the precautionary stocking of cash associated with the millennium date change, growth amounted to approximately 24%. In value terms, 98% of the stock of cash consists of banknotes, with coin accounting for 2%.

In 1999, the amount of per-capita cash holdings stood at HUF 94,550 (consisting of 20 notes and 139 coins). While the value of per-capita notes and coin rose by 30% on the previous year, the number of notes remained unchanged and that of coin fell somewhat.

In late 1999, there were 201.7 million **banknotes** in circulation, worth HUF 931.1 billion. Compared with end-1998, the value of notes in circulation rose by HUF 214.0 billion, in contrast to a 2-million drop in number terms. The latter change was due to the withdrawal of 100-forint banknotes and the significant number of old 5000-forint, 1000-forint and 500-forint notes, which were not exchanged for legal tender at the cashiers' desks of the central bank.

The number of **coin** in circulation at end-1999 fell by 9.6% to 1.4 billion, relative to the previous year. In 1999, the National Bank of Hungary withdrew from circulation the 50-fillér coins, which could be exchanged for legal tender up to the deadline of March 31st, 2000. The withdrawal of 50-fillér coins, 200-forint notes and large 100-forint coins in 1998 reduced the number of denominations in circulation to seven.

Following the expiration of the conversion deadline for the larger 100-forint and 200-forint coins some 16 million of these coins, with a value of HUF 2,519 million, remained in the possession of individuals. Out of this, HUF 1,762 million was recorded as a profit made in 1999. This amount was used to reduce the public debt pursuant to the provisions of Act LX of 1991 on the National Bank of Hungary.

3.3 Cash turnover and processing activity

Against the background of the rising value of notes and coin in circulation, the value of transactions conducted at the Bank's cashier's desks dropped by 19%. This was brought about by changes in the cash handling and exchange charges introduced in October 1998, which induced commercial banks to satisfy their need for cash partly by using one another's surplus cash liquidity. In the course of the past three years, each note in circulation passed through the Bank's note processing units 2.5 times on average. In the process the notes were checked for suitability and authenticity. This ratio fell to 1.9 in 1999, as a result of a 28% drop in the number of notes paid in

at the central bank's cashier's desks. The decline in velocity does not imply an easing of control on notes in circulation, as there is also a stringent business-based processing of notes outside the central bank, conducted by organisations with money processing licenses operated within a regulated framework since 1997.

3.4 Counterfeits

Counterfeiting of the denominations of the new banknote series is not significant, and those produced by unsophisticated office equipment are easy to recognise, thanks to the high-quality security elements on the notes. Nearly 70% of the counterfeits detected in the course of 1999 were modelled on the previous 5,000-forint notes and were put in circulation mostly after April, following the announcement of the withdrawal of the denomination. This prompted the central bank to reschedule the withdrawal deadline for July 26, 1999, in order to prevent the further spread of the existing counterfeits.

4 Payments and clearing and settlement systems

The introduction of the Real Time Gross Settlement System (VIBER) on September 3, 1999 was a landmark in the history of the Hungarian money and securities markets. VIBER's key function is associated with monetary policy and the operation of money markets, as well as the transfer of large forint sums. The Central Clearing House and Depository Co. (KELER) has set up its real time securities settlement system in association with VIBER. The hot line set up between the two systems enabled the settlement of non-stock exchange trading in securities to be settled at the time of each transaction without delay and in conjunction with payment, together with advance checking by both sides for the existence of security.

The development of the clearing system has improved conditions for liquidity management by banks, reduced the level of partner risk incurred by market participants and established the infrastructure groundwork for the 2000 introduction of the interbank remittance services to be used by bank customers on the day of the transaction.

Interbank clearing of payment transactions is effected via two systems in Hungary: one is VIBER, referred to above, and the other is the Interbank Giro System (IGS), operated by Giro Elszámolásforgalmi Rt. The annual turnover of the two systems combined amounted to over seven times the value of GDP in 1999. The number of transactions rose by 64% in number terms and 20 % in value terms over a year earlier. As in previous years, the sharp rise in turnover was essentially due to securities trading, whereas the spectacular growth in numbers can be attributed to the widespread use of low-value multiple payment orders (wages transfers, collection of utility charges, etc.).

At the end of 1999, credit institutions operating in Hungary held 7.5 million bank accounts for entities considered Hungarian residents for the purposes of foreign exchange regulations (over 900,000 of these were for business associations and entrepreneurs, and 6.6 million for individuals). By contrast, 250,000 bank accounts were held by non-residents. The number of bank cards amounted to 3.8 million.

In the course of regulating payment systems, the National Bank of Hungary placed the greatest emphasis on the needs of monetary transactions, along with meeting its commitments in terms of legal approximation with the EU. This constituted the framework for Government Decree

77/1999 (V. 28) on the rules governing the use and issuance of electronic payment instruments. This decree was formulated with a view to satisfying Commission Recommendation 97/489/EC. In December 1999 the Government passed Government Decree 183/1999 (XII. 13), which regulates the settlement of debts effective as of July 2000 in the following manner. Unless there is a statutory or contractual provision, such as the Act on the Rules of Taxation, which prescribes different rules, the settlement date for outstanding accounts is considered to be the time when the sum is credited to the payee's account. The other major change is that the collection of payment from a debtor's settlement account applies equally to all the debtor's settlement accounts (including their foreign exchange accounts) held at the same bank.

In conjunction with the Hungarian Banking and Capital Market Supervision, the National Bank of Hungary, the institution responsible for the safety of clearing and settlement transactions, played a key role in preparing clearing systems for the millennium date change and in monitoring the preparations of participating credit institutions. Consequently, transition by the financial sector to the year 2000 took place without any problems.

I. International environment of the Hungarian economy

Compared with a rate of 2.6% in 1998, world economic growth in 1999 reached 3.3%, exceeding the expectations prevalent early in the year. The faster-than-expected expansion was partly due to the continuing boom in the United States, and the fact that recovery in the crisis-ridden South-East Asian economies took off sooner than predicted.

The slowdown in growth from the second half of 1998, attributable to exogenous shocks affecting the European Union, Hungary's chief market, proved to be temporary and moderate. The majority of Central and Eastern European countries saw a decline in growth relative to the previous year, owing to the reverberations of the Russian crisis, slowing activity in Western Europe and structural problems. Languid growth experienced by Hungary's Central and East European trading partners and the prolonged effect of the Russian crisis – during the first half of 1999 Hungarian exports to Russia fell relative to the high base in the first half of 1998, a period which was largely unaffected by the crisis – all dampened demand for Hungarian exports.

Further world price decreases in the first half of 1999, continuing the downward trend of the preceding two years, facilitated a further decline in Hungarian inflation. In the second six months, however, increases in world commodity and energy prices were among the underlying factors in the interruption of the downward trend of the consumer price index. Energy price rises also contributed significantly to the deterioration in the terms of trade experienced most severely in the second half of 1999.

A major occurrence in the world's foreign exchange markets in 1999 was the introduction of the euro. Apart from a few transitory periods following its successful debut, the common European currency weakened almost continuously in comparison with the world's leading currencies. The factors at work in this weakening included the long-lasting, remarkable performance of the US economy, the unfavourable prospects of euro-area economies, partly caused by structural problems, and the resulting net capital outflow characteristic of the area.

Emerging economies began to obtain easier access to external funds, compared with the period in the wake of the international financial crises, and Hungary's position improved further, even compared with the generally better overall conditions.

1 Developed countries

While economic growth in the European Union in the first half of 1998 exceeded 3%, the next twelve months witnessed a gradual decline due to the demand-restricting impact of international financial crises. These external shocks were partially offset and the slowdown made less pronounced by uninterrupted buoyant service sector activity and continuing strong consumer confidence in the first half of 1999. The depreciation of the euro in the first half of the year boosted price competitiveness, and as a result of global economic recovery in the second six months, GDP growth rallied and climbed to 2.5%. For the year as a whole, GDP in the euro area grew by 2.1%, compared with 2.6% in 1998.

The half-a-percentage-point fall in the growth rate was primarily due to the weaker performance of two prominent economies in the European Union: Germany and Italy (both recording GDP growth of 1.4%). Of the countries of continental Europe, it was typically these two countries where economic growth seemed to be hampered by delays in structural reform (in the labour market and taxation).

The 2.2% rate of GDP growth in 1998 in Germany, accounting for 38% of Hungarian exports, fell to 1.4% in 1999. In a year-on-year comparison, GDP expanded by merely 0.7% in the first quarter. Expansion in domestic demand was not strong enough to counterbalance the hampering effect that foreign trade had on the growth rate. The first clear signs of economic recovery in Germany in the period following the Russian crisis surfaced in April 1999. The improvement in the number of export orders, dominated by rising demand for investment goods, foreshadowed an acceleration in exports. The pick-up in export activity gave impetus to economic

Table I-1 Selected economic indicators of developed economies*

					Per cent	
	Year	United States	Japan	Germany	EU 15	EU 11
GDP (year/year)	1998	4.3	-2.5	2.2	2.7	2.7
	1999	4.1	0.3	1.4	2.3	2.3
Inflation (year/year)	1998	1.6	0.6	0.9	1.8	1.3
	1999	2.3	-0.3	0.6	1.3	1.2
Inflation (Dec./Dec.)	1998	1.6	0.6	0.4	1.3	1.3
	1999	2.7	-1.1	1.2	1.8	1.7
Unemployment (%)	1998	4.5	4.1	9.4	9.9	10.8
	1999	4.2	4.7	9.1	9.2	10.0
General government deficit**	1998	0.4	-6.0	-2.0	-1.9	-2.0
	1999	2.2	-8.2	-1.2	-1.4	-1.2
Gross public debt	1998	53.5	99.9	60.7	69.0	73.1
	1999	57.7	127.8	61.0	67.6	72.3
Balance of payments**	1998	-2.5	3.2	-0.2	0.9	1.4
	1999	-3.7	2.5	-0.8	0.2	1.0
Exports (year/year)***	1998	2.1	-1.5	7.5	5.9	6.7
	1999	4.0	4.9	4.9	4.0	4.2
Imports (year/year)***	1998	11.7	-4.9	9.7	9.1	9.4
	1999	12.7	10.5	7.6	6.4	6.6

Source: European Economy, Spring 2000 (European Commission).

* OECD countries, excluding Hungary, the Czech Republic, Poland, Turkey and Mexico.

** As a percentage of GDP.

*** At constant prices.

growth in the final quarter, pushing the rate up to 2.5% in a year-on-year comparison.

American economic growth continued to be exceptionally fast in 1999, the ninth consecutive year of the boom. Compared with the 4.3% rate in 1998, GDP grew by 4.1% in 1999, considerably faster than the 2.5% rate regarded as being sustainable over the long term. Inflationary pressure remained moderate, despite a tight labour market and a 4% rate of unemployment, the lowest for the past thirty years. The healthy state of the consumer price index owes a great deal to the strong dollar, keen competition and surging productivity. However, there seems to be a potential threat to this permanent uninterrupted growth posed by the low propensity to save and the related high level of household indebtedness.

In the first half of 1999 Japanese economic performance appeared to be better than expected. Loose monetary conditions and an easy fiscal policy boosted economic activity and helped avoid any major deflation. There was some progress made in the fight against financial sector problems as well. However, after the first two quarters, there seemed to be an interruption in growth, and GDP expanded by only 0.3% for the year as a whole. The nearly decade-long alternation of fiscal easing programmes has failed to set Japan's economy on

a course of long-term growth, and the public debt, amounting to 120% of GDP, does not allow for a continuation of an anti-cyclical fiscal policy.

2 Central and Eastern Europe

From mid-1998, the majority of Central and Eastern European countries experienced worsening economic performance, which lingered on in the first half of 1999. In Central European countries¹, GDP growth fell from 1.5% in 1998 to 0.3% in the first half of 1999, while the Baltic states saw a nearly 4% drop in the first six months, relative to the 4.5% rate the year before. Activity in Russia and the other former Soviet states also continued to decline, but to a much smaller degree than a year earlier.

This decline in economic growth was accompanied by a slowdown in export growth and a rise in unemployment. Adverse external conditions over the first half of the year (sluggish activity in Western Europe, the aftermath of the Russian crisis, the war in Kosovo), etc. were partly to blame for worsening economic conditions, in

¹ Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, Macedonia, Yugoslavia.

Table I-2 Selected economic indicators of Central and Eastern European countries*

	Year	Hungary	Czech Republic	Poland	Slovakia	Slovenia	Bulgaria	Romania	Russia	Ukraine
										Percent
GDP (year/year)	1998	4.9	-2.3	4.8	4.4	3.9	3.5	-5.4	-4.6	-1.7
	1999	4.4	-0.4	4.1	1.9	4.0	2.5	-3.2	3.2	-1.0
Inflation (year/year)	1998	14.3	10.7	11.8	6.7	8.6	22.3	59.1	27.7	10.6
	1999	10.0	2.1	7.2	13.5	6.0	0.5	45.8	85.8	22.7
Inflation (Dec./Dec.)	1998	10.3	6.8	8.6	5.6	6.5	1.0	40.6	84.4	20.0
	1999	11.2	2.5	9.8	14.2	8.8	6.5	54.8	36.4	19.2
Unemployment (%)	1998	7.8	7.5	10.4	15.6	14.6	12.2	10.3	12.4	3.7
	1999	7.0	9.0	12.1	19.0	14.0	14.2	13.6	14.5	
General government deficit*	1998	-4.4	-1.7	-2.4	-5.3	-1.0	1.0	-4.3	-5.3	-2.7
	1999	-3.9	-3.6	-3.3	-4.5		-1.0	-3.5	-4.5	
Balance of payments*	1998	-2.3	-1.0	-6.8	-2.1	-0.1	-0.1	-3.0	2.1	-1.3
	1999	-2.1	-0.1	-11.7	-1.1	-0.6	-0.5	-1.2	22.0	0.8
Balance of payments**	1998	-4.8	-1.9	-4.3	-10.1	0.0	-1.0	-7.2	0.8	-3.1
	1999	-4.3	-0.1	-7.5	-5.9	-0.1	-5.5	-3.0	11.0	1.9
Gross external debt**	1998	22.1	24.5	56.9	11.8	5.0	10.2	10.6	171.0	16.7
	1999	24.6	24.7	60.8	11.0		10.1	8.9	168.0	18.0
Gross external debt*	1998	48.1	41.0	34.0	58.0	25.6	82.0	27.5	63.6	39.5
	1999	53.0	46.0	38.0	52.9		83.0	26.2		59.9

Source: Hungarian data provided by the National Bank of Hungary. Data on other countries: Emerging Markets Economics Quarterly, March 2000 (Goldman Sachs)

* As a percentage of GDP.

** USD billions.

addition to internal shortcomings, such as the absence of or delay in economic restructuring. While the decline in the Czech Republic, Slovakia and Bulgaria was more due to the slowing impact of the ongoing reform aimed at structural adjustment, in Romania and the Ukraine it was rather a delay in the implementation of the necessary reforms that hindered economic development. In addition to this, the countries that took the shortest time to recover from external shocks (Poland, Hungary and Slovenia) tended to be those that had been receiving large amounts of foreign direct investment inflows and/or had made the greatest progress in the transition to a market economy.

In the second half of the year, when the recovery in Western Europe improved expectations and other adverse effects also lost momentum, numerous countries reported a pick-up in activity. Even by broader international comparison, the aforementioned Poland, Hungary and Slovenia also registered very favourable growth rates.

Remarkably, Russian economic indicators for 1999, including GDP growth, the rate of disinflation, the improvement in the external balance and the state of foreign exchange reserves, turned out much better than forecast early in the year. However, the good results were not achieved through the development of the market economy, but through the substitution of imports observable in the wake of the substantial depreciation of the rouble, as well as due to the upsurge in export revenues, caused by the sharp rise in commodity prices, especially oil prices.

3 Exchange and interest rate trends

In late 1998 and the first few months of 1999, monetary policy in the advanced countries was generally characterised by easing or unchanged monetary conditions. Leading interest rates in the US were cut on three occasions in the autumn of 1998, which contributed to the stabilisation of money markets after the financial crises. The United States, which is enjoying a period of fast economic growth and continuing low inflation, left the level of interest rates unchanged in the first half of 1999, but late June witnessed the onset of a moderate upward trend in rates. Although multiple interest rate hikes pushed the leading rate up to 5.5% by the year-end, the expansion of domestic demand, regarded as unsustainable, has not yet slowed.

Against the background of sluggish growth and low inflation in the euro area in 1999 Q1, there was a decision on a 50-basis-point reduction in the leading refinancing rate in early April. This move towards a more lax monetary policy, combined with a pick-up in external demand, facilitated an acceleration in economic growth. In order to keep the inflationary risk (the twelve month harmonised consumer price index of 1.1% in July 1999 was up to 1.4% in October) from materialising against a perceptible pick-up in activity in the euro area from the second half of 1999, the leading rate was again raised to 3% in November, back to the level prior to the April cut.

In the 1990s, traditional instruments applied as a means of assisting economic growth have proved inadequate for rousing the Japanese economy from its almost comatose state. In Japan's economy, faced with serious structural problems, short-term interest rates have been near zero for years, and still demand for credit has been weak, alongside languid lending intentions on the part of banks. In 1999, the stance of monetary policy remained unchanged.

The introduction of the euro in 1999 was a landmark for global foreign exchange markets. The worries in the preparatory stage preceding the introduction of the common currency two or three years ago, such as the prospective success of its adoption and its reception by the market, proved to be unfounded. The euro's debut went smoothly, and it has come to dominate inter-bank transactions within the area. However, the exchange rate of the euro has been almost continuously weakening against all leading currencies.

The introduction of the euro on January 1, 1999 was an eagerly awaited event. During the autumn of 1998, the exchange rate of the ECU had risen considerably against the leading currencies of the world, indicating stronger demand for capital instruments quoted in the currencies of member countries. However, apart from two short spells of strengthening (in August and October), the euro, launched with an exchange rate of USD 1.18, started to slip downwards. Within the course of one year, the common currency lost 16% of its value against the dollar and the pound, and over 25% against the yen.

The factors at work in the almost uninterrupted weakening of the euro include the firm growth prospects of the US economy and its higher level of interest rates than the euro area, the effect of the Kosovo war, which reinforced the dollar's status as an escape currency, the uncertainties about the potential loosening of the obligations undertaken towards the monetary union and, as a result of all the above, the steady outflow of capital and the stronger demand for capital assets denominated primarily in dollars and yens.

Rapid economic growth in the United States was financed by massive foreign direct investment inflows and portfolio investment. In particular, 1998 Q4 and 1999 Q2 saw exceptional inflows of foreign direct investment linked to instances of international company

fusion. These periods of intensive capital inflows broadly coincided with the peaks in net capital outflows experienced in the euro area.

Another key feature of exchange rate movements in 1999, the strengthening of the yen against leading currencies, reflects the significant allure Japanese economy holds for capital, which is not justified by macroeconomic indicators. In the course of 1999, exporters' profit repatriation and the rise in stock exchange prices led to robust demand for the yen. The exchange rate showed hardly any response to the country's economic performance, which was weak by international comparison. Therefore, the excessive appreciation of the yen, running contrary to exporters' interests could only be temporarily halted by means of repeated intervention by the central bank.

4 Capital markets

Money and capital markets seemed to have stabilised in 1999 after the international crises of the two preceding years. Although the conditions for access by emerging economies to primary markets improved compared to late 1998, they still remained worse than those prior to the Russian crisis. This was mainly because the aftermath of international financial upheavals left investors much more cautious. Nevertheless, there is wide variation within the general trend. A number of countries, including Hungary, Mexico, Uruguay and the Philippines, showed no significant rise in interest rate premia relative to the period preceding the Russian crisis, whereas in respect of others, such as most Latin American countries, this was not the case. Interest rate premia on bonds were falling on the secondary markets as of January 1999, but remained still above the level seen before the Asian crisis of 1997. Total net capital inflow into emerging economies (USD 158 billion) in 1999 was less than half the 1996 peak recorded for the nineties. Net private capital inflow (USD 136 billion) was roughly identical to the figure for the previous year, thus the reduction of approximately USD 20 billion was due to a fall in net sovereign capital inflow. The predominant form of inward capital flows to emerging economies was foreign direct investment, accounting for 74% of total net inflows, up from 27% in 1996.

II. Inflation

The average annual consumer price index fell from 14.3% at the end of 1998 to 10.3% in 1999. At the same time, the 12-month price index for December rose from 10.3% to 11.2%. The level of the consumer price index at the end of 1999 marks a break in the downward trend of inflation prevalent since 1996: in contrast to the period between January and December 1998, when the rate of inflation fell by over 7 percentage points, the corresponding value for end-1999 exceeds the value measured at the beginning of the year. Nevertheless, a careful analysis of the determinants of the consumer price index clearly indicates that the trend of disinflation has not reversed and the adverse developments are linked to factors independent of aggregate demand and supply, the key factors determining the long-term path of inflation.

When formulating the exchange rate policy and the inflation forecasts for 1999, both the Government and the National Bank of Hungary were aware that the strong decrease in inflation seen in 1998 was due to supply shocks (such as an unexpectedly large drop in oil prices), which, being temporary by nature, could be expected to continue to push down prices in 1999. Therefore, it came as no surprise that these favourable supply shocks turned around in the course of 1999. In order to be consistent with the approach to the assessment of 1998, in 1999 it is once again necessary to separate out the impact of administrative and supply side shocks, extraneous to monetary policy, from the development of aggregate demand and supply.

Hence the Bank's choice to use the core inflation indicator, which largely excludes the effects of such transitory supply side shocks, as the most reliable and relevant measure of inflation from the aspect of monetary policy.

The continuity of disinflation, reflected by core inflation indices, implies that the mid-1999 halt in the decline of the consumer price index was broadly due to factors falling outside of the scope of monetary policy, most notably the rise in world oil prices and the reversal of the unprocessed foodstuffs deflation, which had a

very strong effect in 1998. In the course of 1999, inflation showed no relevant changes that could have been controlled by monetary policy through influencing aggregate demand.

A key development in this respect occurred in late 1999, when the disinflationary trend seen in tradables – referred to as *industrial goods* – continued and even gained momentum and the decline in the rate of non-tradable inflation – denoting primarily *market services* – continued.

The slight increase in *processed food* price inflation was in line with the inflation path of non-processed foodstuffs, whilst the jump in non-regulated *household energy* price inflation corresponded with the increases in world prices for oil.

Unlike 1999, the beginning of 2000 saw only moderate price increases in regulated goods and services, which fall outside the scope of monetary policy, reflecting the Government's strong anti-inflationary commitment. In 1999, consumer price inflation was pushed up by price increases in the regulated category, in addition to rising fuel prices.

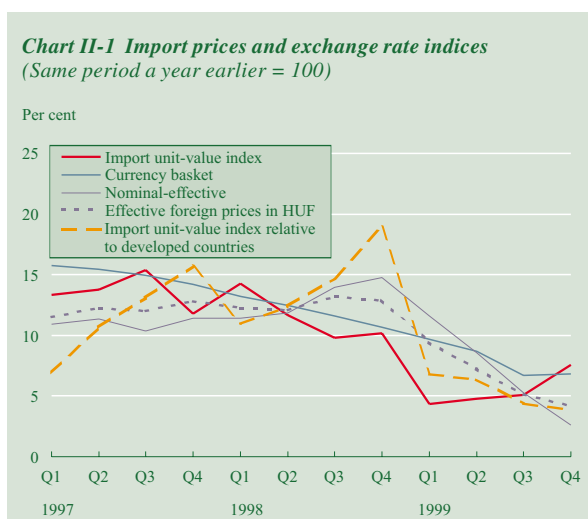
According to Bank projections, the protracted impact of existing or expected regulated price inflation will remain subdued in 2000. Although monetary policy exerts no direct influence on rises in centrally regulated price levels, changes in regulated prices are still one of the determinants of the domestic inflation path in an indirect manner. Certain regulated prices, such as energy or transport service prices, are used as inputs in the production of other goods whose prices are determined by the market, thereby linking inflation in the former category with that in the latter. Moreover, the development of regulated prices may provide market participants with a message which is easily deciphered when formulating inflation expectations. Hence, regulated prices, accounting for nearly one-fifth of the consumer basket, may function as an efficient co-ordination instrument, which may assist the fulfilment of the Government's anti-inflationary targets in the year 2000 in the market category, falling outside the scope of central policy as well.

1 Imported inflation

As a result of the decline in world prices for food and beverages and the rise in agricultural raw materials and metals prices, world commodity prices excluding energy remained unchanged relative to the previous year.

By contrast, crude oil cost 40% more on average than in 1998, with a 2.5-fold rise to USD 29/barrel by March 2000, compared with the lowest average prices seen in February 1999. This exceptionally sharp rise can be explained by the supply-restricting behaviour of OPEC, cyclical growth in demand as well as a decline in reserves.

Primarily as a result of the rapid increase in energy prices, the twelve-month consumer price index in the euro-area countries, Hungary's most important trading partners, rose from 0.9% in June to 1.7% in December. In addition to the cheap euro boosting import prices, consumer prices were further pushed up by the fact that the disinflationary effect of declining unprocessed food prices had dwindled by the latter part of the year.



In spite of buoyant activity and the presence of labour-market bottlenecks in the United States, inflationary pressures there remained subdued. Twelve-month consumer price inflation crept up from 2% in June to 2.7% in December, remaining lower than expectations. The benign consumer price index was supported by the strong dollar, robust competition and a rapid rise in productivity.

In Poland, the 1999 mid-year inflation rate of 6.5% rose to 9.8% in December. This higher-than-expected rise in consumer prices was the result of increasing oil and domestic food prices. As regards the Czech Republic, which seems to be taking a long time to recover from

recession, the year-on-year rate of CPI inflation amounted to only 2.5% in December.

With the exception of the first quarter, the import unit value index gathered pace exceptionally quickly throughout 1999, rising by 7.6% in Q4 relative to the same period in 1998. Nevertheless, it remained lower than the index (10.2%) for 1998 Q4, calculated using similar methods. Until the third quarter, the growth rate of the import unit value index was lower than the depreciation rate against both the nominal effective exchange rate and the currency basket.

This tendency, however, appeared to reverse in the final quarter as a result of the acceleration of the unit value index. This was broadly due to rising prices for imports (primarily energy) from the Eastern and Central European area during the final two quarters of 1999, after the first-quarter deflation and mid-year flat (prices of imports from Eastern Europe went up by 30.8% in Q4 compared with the same period a year earlier). Inflation due to increases in the prices of imports, in particular mechanical engineering imports, from developed countries fell at a relatively even pace over the year (the long-based index indicating a 3.9% rate of inflation in Q4, see Chart II-1).

In contrast with the import unit value index, the imported inflation indicator, (defined as the product of the devaluation rate of the nominal effective exchange rate and foreign manufacturing price inflation), calculated with effective foreign prices, continued its downward trend throughout the year to 4.2% in 1999 Q4.

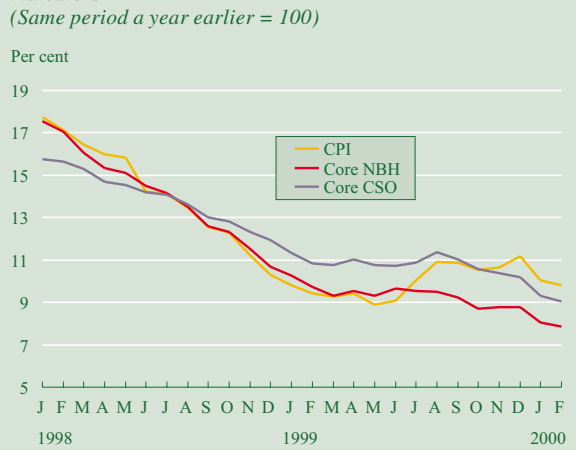
All in all, despite the unmistakable impact of strong increases in world oil prices from the middle of the year, imported inflation for 1999 as a whole appeared to decline compared to preceding years.

2 Components of changes in consumer prices

From a monetary policy perspective, the most important development in 1999 was that the downward trend in tradable prices, which are directly affected by the exchange rate policy, remained unbroken, and even accelerated in the latter half of the year. This contributed significantly to a steady decline in price levels for both industrial goods and for market services, which are controlled by domestic demand. Hence, there was no interruption in the disinflationary process – a view also supported by the decline in core inflation indicators.

In contrast to the core inflation indicators, the consumer price index appeared to follow a rising trend from mid-1999, owing to supply-side factors in the market-determined category and to temporary, and partially illusory, effects in the centrally controlled category. In

Chart II-2 Consumer price index and core inflation indicators
(Same period a year earlier = 100)



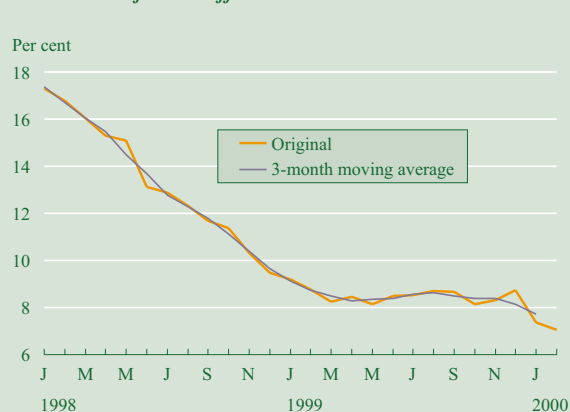
the market category, food and petrol price increases exerted upward pressure on inflation, while factors active in the regulated category included the full incorporation of the summer changes in the pharmaceuticals subsidy system into price statistics and strong inflation in the prices of services. The rise in world oil prices did not prompt a similar change in domestic regulated household energy prices, but a correction of this situation will likely take place during 2000. *On the whole, the rate of inflation in 1999 appears to have been kept high by factors exogenous to monetary policy.* A comparison of Hungarian inflation with that in the euro area highlights the fact that the factors responsible for slowing the decrease in the Hungarian consumer price index were partly the same supply-side factors – such as world commodity and oil price increases – that have also been putting upward pressure on euro-area inflation ever since mid-1999. All in all, convergence in terms of inflation towards the euro area has continued, with the average inflation differential for 1999 a great deal smaller than in 1998 (see Chart II-3).

Tradables, that is, *industrial goods*,¹ carry the largest weight in the market-determined price category. The development of prices for industrial goods is determined by the rate of inflation in Hungary's trading partners and the nominal exchange rate path of the forint. Demonstrating the disciplinary effect of the exchange rate path, the divergence of the rate of inflation in this category from the pre-announced devaluation rate has not ex-

¹ In the course of 1999, there were several reviews of the classification of the 160 products and services making up the consumer price index. The aim was to replace conventional classification, based on the physical appearance and function of the individual items, by one that is homogenous in terms of economic and statistical criteria. The reviewing process is recorded in the Bank's *Quarterly Reports on Inflation*. The Bank's classification is therefore different from that employed by the Central Statistical Office.

ceeded the 1% range since 1998. The high volatility of the inflation differential relative to the nominal effective exchange rate points to the assumption that pricing behaviour is determined by the pre-announced devaluation rate of the forint's central parity: in other words, changes in cross rates and temporary movements within the band are not incorporated in domestic prices. This is the case particularly with respect to *consumer durables* within the industrial category, where the rate of inflation followed a smooth downward trend throughout the year, dropping to nearly 5% by early 2000. This category plays a special role as far as household demand is con-

Chart II-3 Inflation differential relative to the euro area *



* Moving average refers to a three-month central moving average. Euro-area inflation is measured by the harmonised consumer price index (HICP), published by Eurostat. For the sake of comparability, Hungarian inflation is measured with an indicator which is consistent with the HICP in terms of the consumer basket and thus excludes goods and services not included in the HICP (pharmaceuticals, medical products, owner-occupied housing, health services and educational services).

Table II-1 Inflation rate of different components*
(Percentage change on a year earlier)

	Weight in CPI	Dec. 1998	1998 Average	Dec. 1999	1999 Average	Feb. 2000
Consumer Price Index (CPI)	100.0	10.3	14.3	11.2	10.0	9.8
Of which:						
Industrial products, excluding food, alcohol, tobacco and petrol	29.6	10.5	11.7	6.9	8.8	5.9
Petrol	4.9	5.1	9.6	37.8	18.7	32.4
Non-regulated household energy	1.3	6.4	11.9	16.5	11.7	10.6
Food	19.1	4.5	13.9	5.4	1.7	5.3
Regulated prices	18.0	13.5	17.6	17.6	16.6	12.5
Market services	17.6	14.5	16.9	11.0	12.5	10.4
Alcohol and tobacco	9.4	13.6	15.3	10.6	11.5	11.9
Core inflation	89.9	10.8	14.3	8.8	9.3	7.8
Depreciation of the nominal effective exchange rate		13.9	13	2.7	7.0	5.0
Pre-announced nominal devaluation of the forint		10.5	12.2	6.7	8.4	6.2

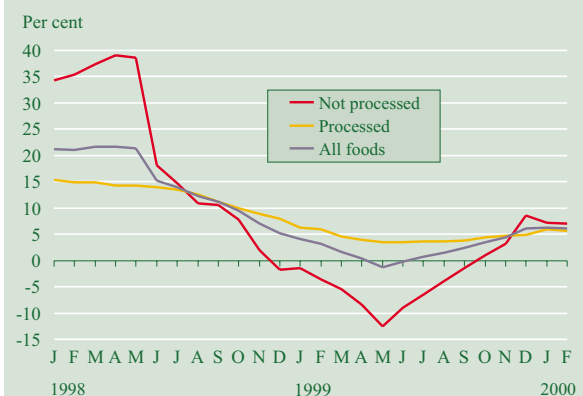
* The classification of items included in the consumer basket is different from that applied by the Central Statistical Office. See the Bank's *Quarterly Inflation Reports* for more details.

Table II-2 Contribution of certain product and service categories to changes in the inflation rate*
(Percentage change on a year earlier)

	Weight in CPI	1999				Dec. 1999–Dec. 1998
		Q1	Q2	Q3	Q4	
Consumer Price Index (CPI)	100.0	-1.0	-0.2	+1.8	+0.3	+0.98
Categories increasing the inflation rate						
Petrol	5.0	+0.2	+0.4	+0.4	+0.6	+1.6
Regulated prices	18.0	+0.2	+0.2	+0.7	-0.4	+0.7
Foods	21.3	-0.8	-0.7	+0.1	+0.7	+0.2
Non-regulated household energy	1.7	+0.1	+0.0	+0.1	+0.1	+0.2
Categories lowering the inflation rate						
Industrial goods	28.8	-0.3	+0.0	-0.3	-0.5	-1.0
Market services	16.3	-0.3	+0.0	-0.1	-0.2	-0.6
Alcohol and tobacco	8.9	-0.2	-0.0	-0.0	-0.1	-0.3

* Changes in the rate of inflation should be interpreted as follows:
 – if prices in each category had continued to rise at the same rate as in 1998, the December inflation rate would have been identical.
 – If, for instance, a category had a price index of 10% in 1998 and a 15% rise was registered in 1999, the difference is +5 % points, whereas if the category had a 5% price index, the difference is -5% points. The weights used in this table apply to 1999.

Chart II-4 Changes in price levels for food and its main categories
(Percentage change on a year earlier)



cerned. It is to be noted that the disinflationary trend in this category has not changed recently, despite the surge in demand for consumer durables, partly linked to an increase in borrowing.

The second largest market-determined category is *food*. In respect of this category's contribution to the headline consumer price index, there is a marked divergence between the figures for early 1999 and late 1999. Whereas the drop in food prices in 1999 Q1 brought down the index by 0.8 percentage points, this effect reversed in Q4, and put nearly identical upward pressure on average inflation. These changes in food prices, linked to *non-processed foodstuffs*, came as no surprise. The sharp rise in non-processed food price inflation in

1999 can be regarded as a correction of the deflation seen in 1998. This correction, which began in the summer of 1998 and lasted for nearly one year, made up for almost half of the overall drop in the price level, bringing back prices of non-processed food to levels prevalent in 1998 Q1 by the beginning of 2000. Although data for January 2000 reflect a slowdown in the correction, given the well-known volatility of prices in this category, any judgement of reasonable certainty will only be possible when data from subsequent months become available.

Processed foodstuffs either come from imports or are produced from domestic raw materials. Thus, it is no surprise that price levels in this category reflect inflation in both industrial goods and non-processed food prices. Accordingly, for a long time processed food price inflation had exhibited a smoothly declining tendency, similar to industrial goods. At the end of last year, however, this steady decline turned into a mild acceleration against the background of a sharp rise in prices for non-processed foodstuffs. As a result of these developments, the increase in average food price inflation in late 1999 is accounted for by the acceleration of both processed and non-processed food price inflation (see Chart II-4).

Inflation in *market services* continued to decline in 1999, approaching the single-digit range for the first time since 1992. Market service prices are only indirectly affected by the nominal exchange rate path. Inflation in this category is determined by domestic demand, relative prices – i.e. inflation in industrial goods – and the divergence between productivity rates for industrial products and services, as well as cost-side energy prices in the case of certain services. Monetary policy is not concerned with the impact of energy price increases, regarding such as exogenous external supply shocks. The inflation differential of market services relative to industrial goods started to grow in 1999 Q3 and has continued to grow, but considering the variance in the twelve-month rate of the two components, the extent of this divergence cannot be regarded as significant. The question remains as to what extent rising relative inflation in market services prices reflects the impact of demand-side or supply-side (cost-side) factors. An analysis of prices for individual items that define the average inflation rate for services offers evidence of both effects. Over the last few months, the average price index for market services has increased as a result of inflationary pressures on a number of services that seem to be highly sensitive to changes in aggregate demand. These include health and beauty services, repair services, cultural and entertainment as well as (domestic) travel services, which account for some one-third of all market services. At the same time, the price index of services most af-

ected by fuel prices (taxi and transport) reached a very high level, but carried no significant weight.

Price increases caused by an upturn in domestic demand, i.e. a growing difference between the relative rates of inflation compared to industrial goods, deserve the special attention of monetary policy. By defining the group of market services which are sensitive to aggregate demand it can be seen that while inflation for this group has consistently exceeded the average for market services, the rate of this excess inflation has remained unchanged since 1999 Q2 (see Chart II-6). Thus, it seems likely that although rising household consumption tends to fuel price inflation for certain market services, this effect has not grown stronger recently, nor has it hindered disinflation within the sector.

The extreme rise in world oil prices in the course of 1999 affected Hungarian fuel and energy prices in a variety of ways. The price of *petrol* increased steadily during the year, up by 27% in December over the figure for January. The high 12-month indices for petrol raised the average consumer price index by 0.4–0.6 percentage points on a quarterly basis. *Non-regulated household energy prices* also followed suit, but at a slower pace. Following major increases in early 1999, the average prices for coal, briquette, firewood and butane gas rose at a subdued rate for the year as a whole, pushing prices in this category only slightly higher than the rate of consumer price inflation. Central regulation also seems to exert a significant influence on this category: the large January cut in the excise duty content in the price of butane gas has been reflected in butane gas prices in early 2000.

In spite of the rise in world oil prices in 1999, *regulated energy prices* (including central heating, electricity, gas supplied through pipes) increased at a modest rate, as the surge in world oil prices was not fed through to domestic consumer prices in the course of the price reviews in July and October 1999 due to the delays built into the price formula and the availability of cheaper supply sources.

As a result of changes in the tariff system, only pipeline-supplied gas and electricity prices rose slightly in the middle of the year. Thus, the annual increase in regulated energy prices, averaging 8.9%, fell short of the increase in the consumer price index. The impact of rising world prices for oil is expected to feed through to domestic energy prices in the course of the price reviews of 2000, even in the face of the government's intention to slow down price increases, in line with its anti-inflationary commitment. This commitment is reflected in the inflation measures for January and February 2000, which saw monthly increases for both electricity and central and district heating prices remain within the centrally set 6% limit (although 12-month indices for elec-

Chart II-5 Difference between twelve-month tradable (industrial goods) and non-tradable (market services) inflation rates

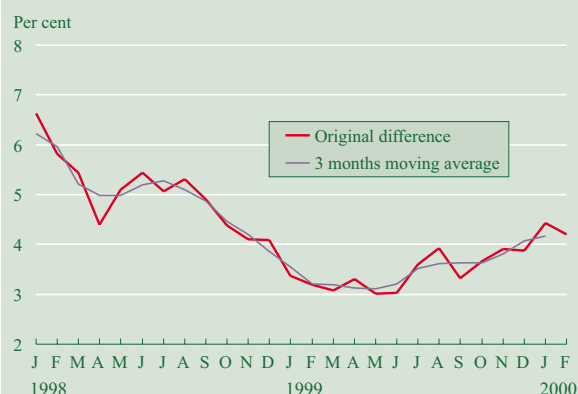
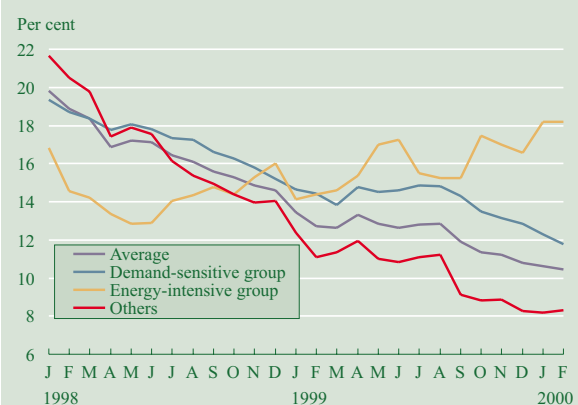


Chart II-6 Inflation rates in individual market service sectors* (Percentage change on a year earlier)



* The demand-sensitive group includes restaurant and canteen catering, snack-bar goods, repair services, health, beauty and educational services, cultural and entertainment services, and domestic holiday-related travel, which combined account for 53% of all market services. Taxi and transport of goods services (2%) require considerable energy (petrol) input. Other items, not included in any of the above categories (e.g. school and nursery school meals, newspapers, books, periodicals, housing repairs and maintenance services, holidays abroad, other services), account for 45% of market services.

tricity edged over 10%, reflecting the February and March 1999 price increases).

Regulated non-energy prices played a key role in interrupting the downward trend in the consumer price index in 1999. The 12-month consumer price index was pushed up early in the year by centrally priced services and from the middle of the year by the statistical accounting of the changes in the pharmaceuticals subsidy system. As noted above, these effects are not considered to be signs of a reversal in the disinflationary trend, as they are only transitory factors independent of aggregate supply and demand, or, in the case of pharmaceuticals, distorting. In the first half of the year the exceptionally high rate of inflation in the category of services with regulated

prices (over 20%) was largely due to the sharp rise in telephone services at the beginning of the year as well as to a significant rise in certain transport service prices.

The full statistical accounting of the modification of the pharmaceuticals subsidy system, effective as of July 1999, resulted in an approximately 1-percentage-point upward distortion in the consumer price index. The box in the Bank's September *Quarterly Report on Inflation* thoroughly examines the problems associated with including such an administrative measure in price statistics. The methodology of the Central Statistical Office, based on a fixed expenditures structure within the year, usually ignores the role of substitution, i.e. the possibility of switching consumption from more expensive

drugs to relatively cheaper ones with identical effectiveness. In the wake of the July measure, the rate of 12-month pharmaceuticals price inflation, included in the consumer price index, amounted to over 60%. As drugs account for 1.8% in the consumer basket, the same weighting as bread for example, this accounting measure resulted in a considerable upward distortion in the average consumer price index. Had substitution been accounted for, the price index would have been lower. As such partially illusory effects, rooted in the accounting system, do not affect inflation from a monetary policy perspective, the National Bank of Hungary has decided to exclude pharmaceuticals from the core inflation indicator, retroactively to 1998.

Box II-1 Measures of core inflation: comparison of the NBH's and the CSO's indicators

In addition to the Bank, the CSO has also calculated a "core inflation" indicator since September 1999. Along with a comparison of the two indices, the economic and methodological considerations underlying such indicators also need to be understood.

What purpose is served by going beyond the traditional consumer price index (CPI) in order to calculate and analyse core inflation indices? In most cases, one such purpose is to *remove* from the consumer price index volatile and elusive components, which typically include non-processed foodstuffs, commodities and energy. Another objective is to employ core inflation figures as a means of providing a better *forecast* of prospective changes in the consumer price index. Monetary policy can also benefit from the core inflation index defined on a statistical basis by using the "smoother" price index to co-ordinate inflation expectations more efficiently. Even such "atheoretical" indicators display a clear-cut break with the *cost-of-living* concept, underlying the compilation of traditional price indices, as in the case of a cost-of-living indicator it would not be appropriate to exclude any one product on which the representative consumer actually spends money. Therefore, it would not be proper to evaluate the effectiveness of core inflation indices in terms of what fraction of the consumer basket they cover.

In addition to statistical considerations, the other, theoretical, motivation behind the use of core inflation indices is the need to capture "monetary inflation", which could be defined in terms of a temporal and general change in the price level, representing a cost for society. Such cost usually arises from disturbances in the co-ordination of market participants, stronger uncertainty and cash stocking deviating from the optimum levels required by transactions. The costliness of such inflation prompts monetary authorities to find a way to ensure price stability. Inflation which does not entail genuine costs will not be reflected by the core inflation index computed in the manner above. In terms of another definition derived from the theoretical foundations of core inflation, "monetary inflation" simply denotes inflation that is taken into account in making monetary policy decisions. If monetary authorities do not wish to respond to what they consider temporary shocks, they define core inflation in terms of a price index which disregards such effects.

For practical purposes it can be assumed that monetary policy is not concerned with changes in the price level due to *indirect taxes* (such as VAT or excise duties), *administrative* measures affecting regulated prices or *temporary* market shocks, such as changes in commodity or individual product prices. Therefore it seems expedient to remove such effects from price changes. Given that such shocks and changes are *idiosyncratic* by definition, in other words, they affect the price index of only one or two goods at any one time, the calculation of core inflation measures can go beyond the simple exclusion from the price index of traditional product categories and make use of more sophisticated statistical methods. Then the objective would be to isolate the *common component* from idiosyncratic movements in individual price changes. Knowing the specific price changes, the common component, identified with the core, can be estimated by various statistical methods, such as the calculation of the trimmed mean or trend.

The wide variety of approaches associated with the interpretation and compilation of core inflation gives rise to difficulties in formulating criteria for comparing the various procedures. Two considerations should be highlighted here. First, it is a key requirement that the core inflation index be available with the smallest possible time lag, and that it reflect current developments rather than past ones. Although most core inflation indices satisfy the former criterion, it should be pointed out that standard 12-month indices represent the average of the movements of the past 12 months, offering thus only limited information on current developments. Transparency of the selected indicator also matters, especially if the monetary authority bases its decisions on changes in core inflation. What is at issue here is the need for making a compromise between transparency and advanced methodology: while calculating core inflation by simple exclusion is the only truly transparent solution, other statistical or model-based procedures appear to be more advanced in terms of methodological or theoretical considerations.

The core inflation indices published by both the Bank and the CSO belong to the type computed by simple exclusion. The selection of the goods to be excluded is governed by a dual consideration, notably the removal from the price index of products with price fluctuations dominated by volatile and temporary supply shocks. Table II-3 compares the product groups excluded from the two indices, relative to the full consumer price index.

As regards the criteria to be satisfied by the core index, both Hungarian indices give preference to the transparency requirement rather than methodological and theoretical considerations. Both indicators can be calculated simultaneously with the consumer price indices, but it is only to a limited extent that the CSO index satisfies the criterion of being up to date, publishing an annual, that is, December on December, index instead of (seasonally adjusted) month-on-month comparisons. By contrast, in its *Monthly Reports*, the NBH also publishes indices satisfying this criterion. A comparison of the two core inflation indices and the consumer price index in Chart II-2 reveals that the CSO index has been higher than the Bank's index since mid-1998. This divergence is due to differences in the types of goods excluded: in contrast with the CSO index, the Bank also includes the category of raw meat, with a negligible rate of inflation, but excludes pharmaceuticals, where inflation has surged. Both differences tend to put a downward pressure on core inflation as published by the Bank.

Table II-3 Comparison of core inflation indices used by the NBH and CSO in respect of items excluded from the consumer basket*

CSO	NBH
Pork	
Beef and veal	
Sheep, rabbit and other meat	
Intestines	
Poultry	
Fish	
Potatoes	Potatoes
Eggs	Eggs
Fresh vegetables	Fresh vegetables
Fresh domestic and tropical fruit	Fresh domestic and tropical fruit
Coal	Coal
Briquette	Briquette
Coke	Coke
Firewood	Firewood
Heating fuel	Heating fuel
District heating	
Electricity	
Gas supplied through pipes	
Butane gas	
Motor fuel	Motor fuel
Coverage of the core inflation index	
80%	91%

* Owing to methodology problems related to the accounting of the July 1999 changes in the price subsidy system, the Bank has also excluded the pharmaceuticals category, with a weight of 1.8% in the consumer basket, retroactively to January 1998.

III. Monetary policy

Economic stability in Hungary is supported by maintaining the exchange rate path within the framework of the pre-announced crawling peg policy, which constitutes the intermediate target of monetary policy. Under the present system, the gradual but always uni-directional change in the rate of devaluation promotes the convergence of the domestic price level to the low inflation of euro-area countries by directly affecting the prices of tradables and indirectly shaping inflationary expectations. The exchange rate path cannot effectively influence expectations unless it is credible. One key precondition for credibility is the maintenance of macroeconomic equilibrium in the context of the selected nominal path. Therefore, the exchange rate path is selected on the basis of the projected development of aggregate demand and supply, as well as the flexibility of fiscal policy.

The *operative target* of monetary policy is the level of money market interest rates. These are set with a view to ensuring the implementation of the pre-announced exchange rate path by influencing demand for the forint. Forint interest rates are determined by the pre-announced rate of devaluation, the prospective intra-band shifts in the exchange rate, foreign interest rates and the required risk premium. In respect of changes caused by international financial conditions, the central bank's interest rate policy is aimed at smoothing out any fluctuations in interest rates which are not justified by economic fundamentals. However, the credibility of the exchange rate system prevents the central bank from causing long-term deviations in the level of domestic interest rates from those expected by market participants.

Monetary policy in 1999 was influenced by the fact that in the first half of the year it was unclear to what extent private sector demand would be able to accommodate to the changes in external demand, and this left the market with pessimistic views of economic potential and equilibrium. Although the Government responded promptly to the slow-down in economic activity by freezing government spending, analysts were divided on the sufficiency of the correction. Thus, despite a steady pick-up in the quarter-to-quarter external position, the perception of country risk did not improve over the first

three quarters of 1999 relative to late 1998. This negative perception was further aggravated by the war in Yugoslavia and the continual uncertainties in Russia's domestic politics. Monetary policy decisions were also affected by changes in the international financial environment. As reflected by the EMBI+ index, the loss of investor confidence which struck all emerging economies in the aftermath of the Asian and then the Russian crisis, lingered on until August 1999. Still, over the final four months of the year, the interest premium expected from investment in emerging economies declined gradually.

All of the above developments called for *tighter monetary conditions* in 1999. After the stabilisation of the adverse capital market situation in the latter half of 1998, the Government and the National Bank of Hungary made three cuts of 0.1 percentage points each in the monthly rate of crawl. Consequently, following the temporary depreciation of the real exchange rate in 1998, the trend of real appreciation, characteristic of earlier years, resumed. Against the background of the tighter exchange rate path, the interest premium also stabilised at a high level, bringing annual interest rates on short-term market yields to over 5%.

The high interest premium level prevalent over the first three quarters did not attract considerable amounts of interest rate sensitive capital into the country. At the same time, there were strong inflows of non-debt-creating capital. This resulted in the forint fluctuating mostly near the strong edge of the band, apart from a few short periods. Nevertheless, over the first three quarters, the Bank was not forced to intervene on a large scale and purchase foreign exchange, compared with the period leading up to the Russian crisis. In the final quarter, the gradual decline in the interest premium was accompanied by an increase in the inflow of interest rate sensitive capital, causing a considerable rise in the demand for forint conversion.

As a result of the Bank's sterilisation policy adopted since the introduction of the crawling peg system, fluctuations in the demand for forints have not affected the level of the monetary base, which rose nearly at the same

annual rate of 15% as did nominal GDP. The tendency, prevalent over the past few years, of domestic economic agents replacing their foreign exchange assets with forint assets, has continued.

In the wake of the Russian crisis, there was a temporary interruption in disintermediation, causing a rise in the popularity of long-term deposits in the banking system, as opposed to forint investment instruments outside the banking system. However, the composition characteristic of the period prior to the Russian crisis was restored by the final quarter, channelling some 70% of households' current savings into government securities and investment trusts, rather than banking instruments. The higher real interest rate reduced the demand for credit raised by the domestic banking system. Although the total amount of borrowing by the corporate sector did not decrease significantly, there was a shift in favour of foreign exchange loans.

depreciation in the real effective exchange rate index calculated on the basis of added value based on the unit wage cost, which gives a better picture of the competitiveness of the Hungarian manufacturing industry.

While in 1998 the faster-than-expected decline in inflation caused minor depreciation in the forint real exchange rate, on a CPI basis as well, the nominal exchange rate path announced for 1999 was consistent with the Bank's view that the equilibrium real exchange rate path allowed for a 2–3 % appreciation based on the consumer price index. The aim of the Government and the central bank in setting the path for the exchange rate was to influence the long-term trend of inflation: thus, similar to previous years, such temporary supply shocks as food prices correction, raw material and commodity price increases played no part in determination of the exchange rate path in 1999. Accordingly, the rate of devaluation was cut on three occasions in 1999 (see Chart III-2), and the simultaneous announcement of the cuts scheduled for July and October enabled prediction of the nominal path of the economy over a much longer term than previously. The favourable trend in macroeconomic developments paved the way for the December announcement of another cut in the devaluation rate to 0.3% per month as of April 1, 2000.

From the perspective of monetary conditions, 1999 can be split into two parts. The first three quarters were characterised by monetary tightening in terms of both

Table III-1 Interest rate changes by the National Bank of Hungary

Effective	Per cent					Rate of interest on mandatory reserves Forint and foreign exchange liabilities
	Base rate	Active repo rate	Deposit rates			
			O/N	Two week	1 month	
01.01. 1999	17.0	19.50	14.00	—	16.75	10.00
01.08. 1999		18.50	13.50	—	16.00	
02.01. 1999	16.0			—		9.00
03.01. 1999*				16.00	—	
04.09. 1999		18.00	13.00	15.50	—	
04.28. 1999		17.75	12.75	15.25	—	
06.01. 1999	15.5				—	
06.14. 1999		17.25		15.00	—	
07.01. 1999					—	8.50
07.13. 1999		16.75		14.75	—	
11.04. 1999		16.50	12.50	14.50	—	
11.15. 1999	15.0				—	
12.17. 1999		16.25	12.25	14.25	—	
12.22. 1999	14.5				—	8.25

* As of March 1999 the one-month deposit facility was replaced by the two-week deposit facility, the interest rate of which replaced the one-month rate as the Bank's leading rate.

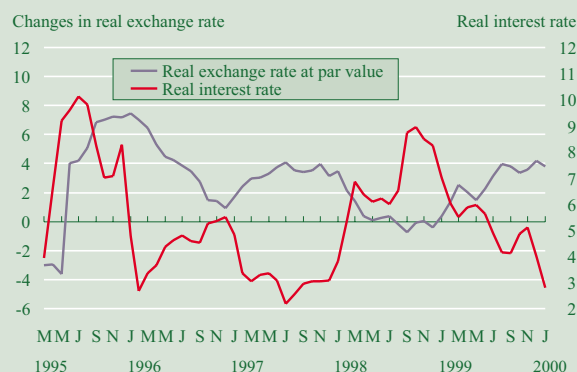
Table III-2 Changes in the devaluation rate

Monthly devaluation rate (in %)	Effective date of the cut in the devaluation rate	Announcement of the cut in devaluation rate	Annual devaluation corresponding to the monthly devaluation rate
0.6	1 January, 1999	26 November, 1998	7.44
0.5	1 July, 1999	20 April, 1999	6.17
0.4	1 October, 1999	20 April, 1999	4.91
0.3	1 April, 2000	17 December, 1999	3.66

1 Monetary conditions and demand for the monetary base in 1999

Under the current monetary system, the key policy instrument for influencing monetary conditions is the exchange rate path. In turn, this pre-announced path provides the economy with an efficient nominal anchor. Prior to 1998, the Government and the Bank determined the relationship between the path of inflation and the rate of devaluation causing the forint exchange rate to appreciate in real terms based on consumer prices. The rate of appreciation was consistent with the fact that Hungarian tradables sectors displayed faster productivity growth than their trading partners, thereby causing a

Chart III-1 Monetary conditions



* The chart shows real interest rates calculated on the basis of yields on three-month Treasury bills. The real exchange rate index, reflecting monetary conditions, does not correspond to the indicators measuring competitiveness, presented later. The real exchange rate here denotes the ratio of the exchange rate change over the next three months and forward-looking inflation.

the real exchange rate and the real interest rate. However, while in respect of the *real exchange rate, the tight conditions were adhered to throughout the year, the trend reversed in the case of real interest rates in the course of the final quarter, falling by over 300 basis points compared to the first half* (see Chart II-1). Under a crawling peg system, domestic real interest rates are determined by the expected changes in the real exchange rate, the level of foreign interest rates and the amount of the risk premium that compensates for various degrees of risk.

1.1 Interest rates

Domestic real interest rates in 1999 were predominantly determined by the interest premium on forint-denominated investments, but another factor in the high rates prevalent in the first three quarters was the tight monetary policy adopted by the central banks quoting the currency basket. The European Central Bank, which quotes the euro, accounting for 70% of the basket, raised its leading rates by 75 basis points in 1999, similar to the FED, functioning as the US central bank, which also raised its leading rate by 75 basis points in three moves. Until October 1999, the interest premium demanded on short-term and long-term forint investments fluctuated consistently between 480 and 530 basis points, exceeding the level characteristic of the period leading up to the Russian crisis. The high premium rates were supported by sentiments on international capital market and country specific factors alike. Throughout 1999, the EMBI+ index, reflecting the general perception of emerging market economies in terms of risk, continued to be higher than the levels characteristic of the period prior to the Russian crisis. Furthermore, over the first nine months, market analysts' unfavourable judgement of the external and internal balance of the Hungarian economy also had an adverse impact on demand for forint-denominated investments.

While interest premium remained high and changed little over the first nine months of 1999, there were dynamic changes in market perception:

- The January financial crisis in Brazil only had a temporary impact on Hungary's country-specific risk premium which was followed by a temporary drop in the premium below the December level. The rise in the premium observed from mid-March was partly a result of the war in Yugoslavia, but the intensification of the controversy surrounding the macroeconomic path and, in particular, the state of equilibrium, was another factor. The change in the exchange rate path announced on April 20th did not prompt a similar decline in domestic interest rates, due to the rise in the premium on forint instruments.

Chart III-2 Interest premium on three-month Treasury bills



- 1999 Q2 was marked by anticipation of a hike in interest rates by the FED, compounded with expectations of a similar move by the ECB, in addition to further raises by the FED from late summer. Interest changes in countries quoting the currency basket also indirectly affect the size of the premium on forint rates. In addition, the anticipation of interest rate changes, especially in the US, usually exerts downward pressure on demand for emerging market instruments, in particular for those which are sensitive to short-term yields.
- Hungarian interest rates were further affected by a downturn in the general perception of emerging economies. Primarily due to the turbulence in South America, the EMBI+ index rose by 200 basis points during the summer. Although Hungary managed to finance its current account deficit from the steady inflow of non-debt-generating capital and the country's international reserves remained high all along, contagion also affected the interest premium on the forint. Consequently, the drop in country risk stemming from the end of the war in Kosovo failed to feed through to the forint's premium.
- Again, strong macroeconomic data published in the course of the summer (such as the lower-than-expected current account deficit and inflation in May and the budget deficit in June) failed to reduce the interest premium on the forint. All in all, the continuously high premium enabled the Bank to implement a tight monetary policy over the first nine months of the year, with four cuts totalling a mere 200 basis points in the leading rate, which was in line with the reduction in the forint's rate of devaluation.

The autumn of 1999 witnessed a turning point in the perception of emerging economies by the international capital markets:

- By that time it had become clear that since the crisis-ridden countries were recovering from their

problems more quickly than expected, contagion from the Asian, Russian and Brazilian crises had a smaller-than-expected impact on world economic growth. As a result, the EMBI+ index took a downward turn from September, plunging by 400 basis points in the period between September 1999 and January 2000.

- *This was accompanied by an easing in the uncertainty surrounding the state of the external and internal balance of the Hungarian economy.* The publication of a number of encouraging macroeconomic indicators in the final quarter tended to dispel concerns about the budget deficit, and the pick-up in activity combined with favourable current account data acted to dissolve fears of external imbalance. This rosy picture was, however, somewhat overshadowed by increasing uncertainty regarding the prospective path of inflation, despite the steady decline in core inflation, the main measure of the inflationary trend relevant for monetary policy. Accordingly, the Hungarian government security market experienced a downturn in yields from October 1999, which progressed in two distinctive phases. The first phase between October and December saw a decline in yields at maturities in excess of one year, and the second phase, starting in December, was characterised by a fall in short-term yields. The over 300-basis-point fall in market yields in the period from December 1999 and March 2000 can be attributed to both fundamental and technical factors, including the aforementioned country-specific and international factors. The currency basket swap on January 1, 2000 also exerted downward pressure on domestic interest rates, as the short end of the yield curve was characterised by lower-than-dollar euro rates.
- Changes in domestic interest rates on the longer end of the yield curve were becoming increasingly exposed to the activities of “convergence speculators”. Accession to the European Union is expected to put downward pressure on domestic interest rates, which will be likely to lend a special allure to investment in longer-term forint instruments.

The combination of all these factors brought the forint’s interest premium down from the 550 basis points seen in the first half of 1999 to around 250 basis points by January 2000. During the first phase of the decline, the FED’s and the ECB’s interest hikes (exerting downward pressure on the forint’s interest premium) and worries related to the millennium date change caused the central bank not to follow market movements to the full. However, in the period from January to February 2000, it made exceptionally strong cuts in the interest rate, lowering the leading rate by a total of 250 basis points in

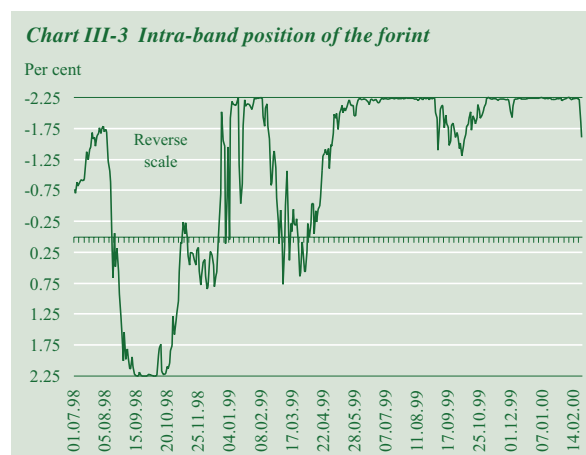
three moves, with the aim of halting the considerable inflow of capital.

1.2 Exchange rate

The intra-band position of the forint’s exchange rate varied between the first and second halves of 1999. Over the first six months for the most part the rate remained in the stronger half of the intervention band, though it only rarely reached the strong edge, while in the latter half of the year it held fast at the strong edge, with the exception of September and October.

In the *first quarter*, inward flows of capital exceeded the current account deficit on the balance of payments, with the main components being foreign direct investment and equity purchases. There was also strong portfolio investment in long-term government securities. Investors in long-term government securities attempt to earn profits by taking advantage of long-term interest rate convergence with EU rates, so the volume of inflow is much more dependent on the timing of the primary issue of such securities than on the development of the short-term interest premium on the forint. Except for the brief episode around the devaluation in Brazil, the forint mostly lingered at the strong edge of the band during the first few weeks of the year, necessitating strong intervention. In the course of March, the exchange rate drifted from the strong edge of the band for a longer period and, for short intervals, swung over into the weak range of the band. The weakening of the exchange rate was broadly due to worries related to the external and internal balance. During the first quarter, capital outflow related to items sensitive to short-term interest rates continued, primarily induced by closing forward long foreign positions established earlier.

The *second quarter* witnessed high interest rate premia on forint instruments and a strengthening of the forint within the band (*see Chart III-3*), requiring intervention at the strong edge on several occasions. The fo-



rint's position within the band was primarily influenced by the non-debt-creating capital inflow in excess of the current account deficit. The high interest premium did not induce considerable levels of interest rate sensitive capital inflows, which can be explained by lingering worries about Hungary's economic prospects, weakening confidence in emerging economies and expectations of interest rate hikes in the United States. Intervention demand for the forint was absorbed by the economy's growing financing requirement, first bringing down the volume of central bank sterilisation instruments over the first six months and then raising this volume again later.

The *third quarter* was again characterised by a high interest premium on forint instruments, strong capital inflows and the forint's adherence to the strong edge of the band. September brought some divergence, with the forint drifting 50–75 basis points from the strong edge, returning only in late October. Apart from this temporary weakening, the exchange rate seemed stuck at the strong edge of the band, requiring large-scale intervention. Capital inflows, in excess of the current account deficit, basically took the form of foreign direct investment and equity portfolio investment linked to privatisation deals on the stock exchange. However, whilst interest rate sensitive inflows in the first six months were negligible, the third quarter saw an increase in this area as well, mainly as a result of the conversion effect of derivatives and banks. During this period, the activities of commercial banks on the spot and forward-exchange markets could be considered a correction for the previous quarter, since they continued to maintain neutral total open positions. Their goal was to wind up long foreign currency positions established over the previous quarter as a result of the strong non-debt-generating capital inflows, when the low activity in the forward markets continued to prevent them from making counter deals. This weak activity in forward markets caused existing short foreign-exchange positions to be wound up completely by late September, greatly boosting the demand for forints.

During the course of the *fourth quarter*, the forint lingered almost without interruption at the strong edge of the intervention band, a fact due particularly to a *pick-up in interest rate sensi-*

tive capital inflows. Over the fourth quarter, the positive change in the general perception of emerging economies and the favourable macroeconomic data boosted interest in forint-denominated investment. Over the course of October and November, the yield on long-dated government bonds plunged and, from December, yields on the short end of the yield curve also followed suit, with a 300-basis-point fall in the interest premium on short-term forint instruments. With regard to interest-sensitive capital inflows, corporate borrowing from abroad showed no signs of slowing down in the fourth quarter, giving rise to the strongest demand for forint conversion over this period. In the final three months, the current account deficit, adjusted for foreign direct investment and the external interest payments of the National Bank of Hungary, reduced forint demand by a mere HUF 10 billion. This was so despite the fact that, similar to a year earlier, the current account deficit soared in December, due to the customary year-end wave of profit repatriation by multinational companies. This, however, was successfully counterbalanced by the similarly strong inward flows of foreign direct investment.

1.3 Intervention by the central bank

Intervention by the central bank amounted to HUF 811 billion in 1999 (*see Table III-3*), more than four times the Bank's purchases in the foreign exchange markets in

Table III-3 Components of the demand for forints

	HUF billions					
	1998	1999 Q1	1999 Q2	1999 Q3	1999 Q4	1999
A) Conversion	192	78	125	307	301	811
a) NBH FX purchases in the interbank FX market	154	78	60	304	270	712
b) NBH purchases from the budget	37	0	65	3	32	99
Sources of conversion (I+...+VIII)	192	78	125	307	301	811
I Current account adjusted by the NBH's net						
foreign interest payments (1+2)	-383	-109	-124	1	-193	-424
1 Current account	-495	-136	-148	-17	-197	-498
2 NBH net foreign interest payments	112	27	24	18	4	73
II Foreign direct investment	333	67	69	87	183	407
III Conversion due to commercial banks *	-73	-17	-5	43	-32	-11
IV Effect of derivatives **	-206	-52	-68	37	24	-58
V Intervention due to conversion of domestic						
FX deposits	6	7	7	-27	11	-2
VI Net portfolio investment (1+2)	384	135	213	74	214	635
1 Government securities	176	15	19	13	105	152
2 Equities***	208	119	194	61	109	483
VII Corporate FX borrowing (1+2)=(a+b)	90	50	61	69	76	256
1 Domestic	49	29	27	11	87	153
2 Foreign	41	21	34	58	-10	102
a) Maturity up to one year	-37	2	-19	-10	-28	-54
b) Maturity in excess of one year	128	48	80	78	104	310
VIII Capital transfers	41	-3	-30	24	18	8
B) Interest rate sensitive (III+IV+V+VI/1+VII)	-7	3	15	133	184	336
C) Spekulative (B-V-VII/b)	-141	-51	-72	82	69	29

* Conversion due to changes in the total open position of commercial banks, which is equal to the portion of the on-balance-sheet open position unhedged by derivative contracts.

** Conversion effects of changes in the volume of forward contracts. The negative signs in front of these two entries reflect the winding up of short FX positions built up earlier.

*** Balance-of-payments statistics on non-residents' equity purchases are rather unreliable, hence the calculation of the entries in this line as residuals.

1998. The current account deficit adjusted for the Bank's net external interest payments was nearly equal to the volume of foreign direct investment in 1999, with these two items reducing the demand for forint conversion by HUF 17 billion. In 1999, portfolio investment in the equity market, worth HUF 483 billion, exceeded the level of direct capital inflow, thus becoming the most powerful factor in conversion. In the course of 1999, equity investment by non-residents was more than double the value for a year earlier, while corporate foreign exchange borrowing expanded at an even stronger rate, tripling the amount for 1998. The contribution to the demand for forint conversion of corporate financing by means of foreign direct investment inflows, foreign exchange borrowing and equity deals combined amounted to HUF 1,146 billion, up by over HUF 500 billion on corresponding figures for a year earlier.

Non-Hungarian residents' demand for government securities gained momentum in 1999 Q4, related to the spectacular fall in interest premium. The open position of credit institutions showed no marked fluctuations during the course of the year, with the weak trading in forward markets prompting banks to aim for the maintenance of neutral foreign-exchange positions. Compared with late 1998, both the on-balance-sheet and forward position of credit institutions shifted towards long foreign-exchange positions, reducing the demand for forint conversion by a total of HUF 70 billion. It should be noted that interest-sensitive capital inflow was higher by nearly HUF 330 billion in 1999 than a year earlier, thanks primarily to increased demand for foreign government securities and substantial long-term corporate foreign exchange borrowing. At the same time, speculative capital inflow remained subdued.

Box III-1 The forward-exchange position of the banking system

For the majority of the year, commercial banks' activity in the foreign exchange markets appeared to be rather sluggish, in the sense that they endeavoured to maintain closed foreign exchange positions. The period from early May to mid-July, which saw a build-up of significant on-balance-sheet open positions, was no exception. At that time, banks were still keen on closing their positions, but their increased foreign exchange assets, due largely to foreign direct investment inflows, could not be immediately converted to forints for fear of major losses. Therefore, their total foreign exchange open positions were being closed over time either through currency sales on spot markets or forward-exchange contracts. It was only by mid-July that the banks managed to close their on-balance-sheet open positions.

The period displaying some slight deviation from this trend began at Christmas and evolved fully during early 2000. At that time, banks appeared to have returned to the strategies characteristic of the period prior to the Russian crisis, undertaking open foreign exchange positions in order to take advantage of the interest premium on forint instruments (such as government securities and central bank deposits) and redirecting an increasing fraction of their foreign exchange liabilities to forint-denominated investment. *Chart III-4* shows that in the period after December 20, 1999 the banks made a definite move towards on-balance-sheet short foreign exchange positions, stepping up the volume of counter forward-exchange contracts in order to hedge the exchange rate risk. As a result of the banks' inability or reluctance to fully hedge their on-balance-sheet open foreign exchange positions, the total open position reached HUF 50 billion by late January. This amount was already identical with that prior to the Russian crisis, but brought about by much (four times) smaller on-balance-sheet and derivative values.

Chart III-4 Banking system's total on- and off-balance-sheet open foreign exchange position (Five-day moving average)

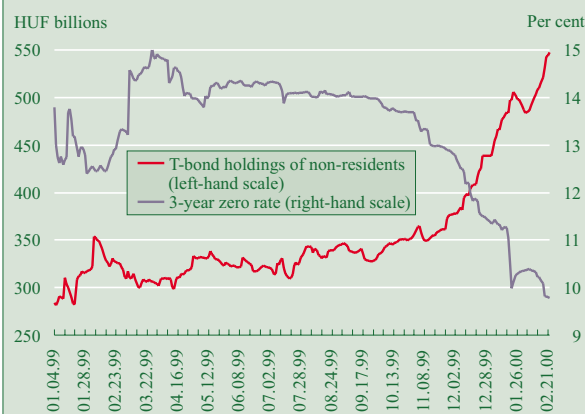


Chart III-5 On-balance-sheet foreign-exchange open position of the banking system and the interest rate premium on forint instruments

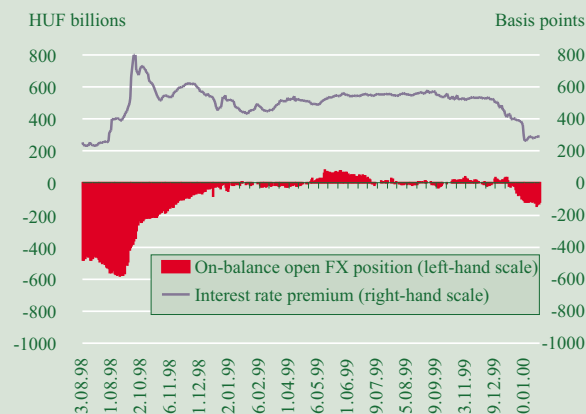


Chart III-5 shows the banks' on-balance-sheet open foreign exchange positions as well as changes in the interest premium on forint instruments in excess of foreign investments over the period from immediately before the Russian crisis to date. Prior to the crisis, the interest premium was scarcely greater than 2 percentage points. Against the background of this extremely low value, banks built up on-balance-sheet open foreign exchange positions amounting to HUF 600 billion. The crisis pushed the premium up to over 5 percentage points, while on-balance-sheet contracts stood largely at zero. This provides a good illustration of the complete reversal of pre-crisis optimism to pessimistic sentiments caused by changes in the international environment. Eventually, the date of December 20th marked a turning point in investment confidence, with banks undertaking on-balance-sheet short positions. Simultaneously, the interest rate premium on the forint appears to have quickly returned to its pre-crisis level.

Table III-4 The monetary base

	HUF billions						
	1999						Annual change
	1999 opening stocks	Change at Q1	Change at Q2	Change at Q3	Change at Q4	Year-end stock	
I Monetary base (II+III)	1,161	20	59	47	153	1,439	278
Notes and coin	736	-5	50	27	149	956*	220
Reserves	425	25	9	20	5	483	58
II Net forint instruments (b+c+d-a)	339	66	44	-238	-110	101	-238
a) Sterilisation instruments	525	-83	-126	131	172	619	94
b) Credit to financial institutions	167	-24	-10	-5	-8	120	-47
c) Net claims on the government	718	27	-163	-100	30	512	-206
of which: Treasury Account (-)	33	-3	85	80	4	199	166
Government securities (+)	377	44	-1	-12	-7	401	24
Other (+)	375	-20	-78	-8	41	310	-64
d) Other	-21	-20	91	-2	41	88	109
III Net foreign exchange assets	822	-47	15	285	263	1,338	516
Net foreign	-502	79	307	280	339	504	1,006
Assets	2,260	170	202	269	368	3,269	1,009
Liabilities	2,762	90	-105	-11	29	2,765	3
Net domestic	1,324	-126	-293	5	-76	834	-490
Assets	2,146	-93	-317	-56	-129	1,551	-595
Liabilities	823	33	-25	-61	-53	717	-106

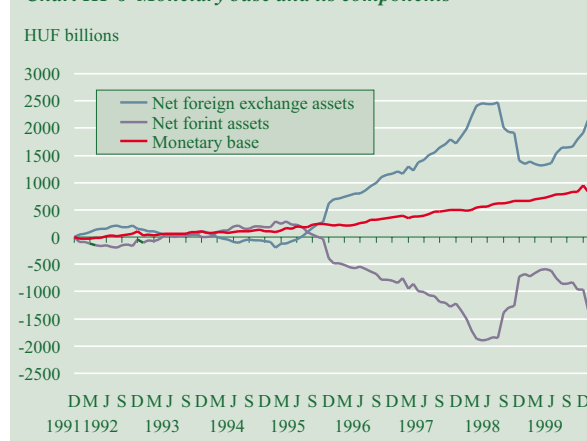
* Inclusive of 5000-forint notes withdrawn from circulation.

In 1999 the monetary base expanded at a rate of 24 per cent, faster than inflation, primarily due to precautionary cash stocking in December related to the Y2K date change. After adjusting for the Y2K-related one-off additional cash requirement, valued at HUF 70 billion, M0 growth was much more consistent with the macroeconomic conditions created by inflation and economic growth.

In the course of 1999, the central bank had to intervene in the interbank foreign exchange market to the amount of HUF 708 billion, reflected by growth of HUF 516 billion in net foreign exchange assets (see Table III-4). The additional money supply that had appeared in the economy in excess of narrow money demand was sterilised by the Bank by various means. The value of sterilisation instruments increased by approximately HUF 100 billion relative to end-1998, although they developed differently during the two halves of the year. Over the first six months, sterilisation fell by HUF 200 billion due to less intense intervention, whereas the sec-

ond half of the year witnessed strengthening intervention, causing a HUF 300 billion rise in the value of sterilisation aimed at reducing the effect of the central bank currency purchases on the money supply. Excess liquid-

Chart III-6 Monetary base and its components



ity was further reduced by the HUF 50 billion decline in lending to financial institutions and the HUF 200 billion fall in the claims on the government.

2 Yield curve, interest rate and inflation expectations

From January 1999 to the end of February 2000, there was a significant downward shift in the level of the Hungarian yield curve, simultaneously with a decline in its negative slope. Compared with early January 1999, at end-February 2000, zero-coupon bond yields were 580–300 basis points lower, depending on maturity dates. The changes, however, were not distributed evenly across the year, but took place in two distinctly different phases. During the first stage lasting until early October, the slow decline in short yields kept abreast of the shifts in the central bank interest rates and was accompanied by an equally slow rise in long yields. The slow upward trend in long yields was only broken for brief intervals, mainly in the aftermath of

exogenous shocks affecting the risk premium (such as the Brazilian crisis and the war in Kosovo). During this period, the yield curve seemed to turn around at the 1.5-year maturity date. A major factor in the slow rise of long yields over the first nine months of 1999 was the negative perception of macroeconomic equilibrium and the budget and balance-of-payment deficit on the current account expected at the year-end, as well as related uncertainties. Furthermore, there was a simultaneous steady rise in the long yields on the basket of currencies.

Nevertheless, events in the fourth quarter opened market participants' eyes to the possibility that both 1999 and the forthcoming period would follow a better-than-expected scenario, in terms of both equilibrium and economic growth. As a result, the risk premium on forint instruments declined sharply, and this, combined with certain technical factors (such as the currency basket swap and the millennium date change), caused forint yields to plummet in several steps. At first, the fall affected mostly yields at long maturities, but, from mid-December, short-term yields also began to catch up, bringing the slope quickly back to its level in late September.

The following are some of the factors which played a part in the yield changes, listed in chronological order:

The first event with an impact on the Hungarian bond market was the Brazilian crisis. At its onset on January 14th, zero-coupon bond yields rose by 50-100 basis points, and the forint weakened considerably within the band (*see Chart III-7*). The effects of contagion on the Hungarian government security market lasted for only a week: implied forward rates were back to their pre-crisis level by January 22nd. Mid-February saw the publication of a number of market analyses reporting a higher-than-expected deficit on the 1998 current account, along with unfavourable information on the January budget balance. As a result, yields at all maturities started to rise, resulting in an approximately 100-basis-point rise in implied forward rates by early March.

Preparations for the NATO air strikes against Serbia and the eventual launch of the attacks put temporary upward pressure on both the forint risk premium and the uncertainty about prospective interest rates. Consequently yields rose at all maturities, with those for longer terms up more sharply: implied forward rates beginning in two or three years' time went up by about 200 basis points in the period between March 16th and 25th (*see Chart III-8*). By early April, this war-induced market uncertainty had abated somewhat, causing implied forward rates starting in two or three years' time to fall by around 100 basis points.

Chart III-7 Zero-coupon yield curves

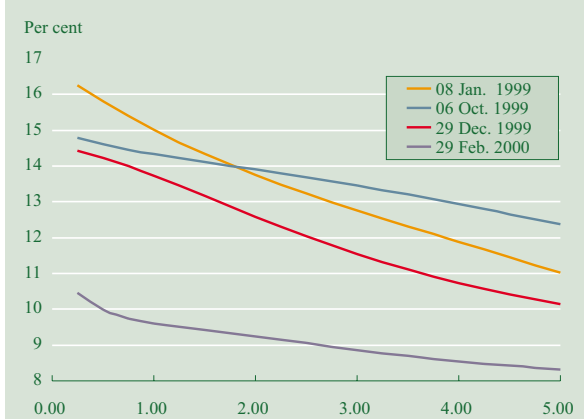
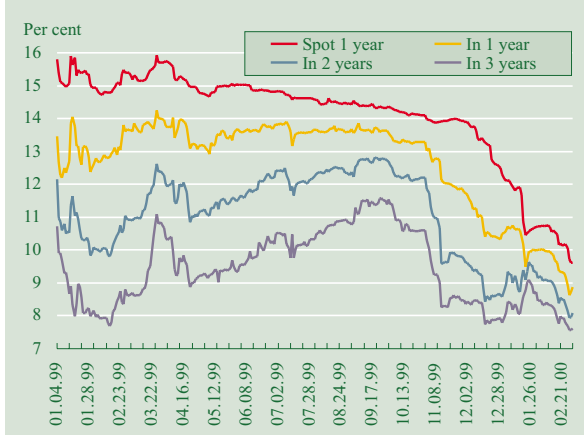


Chart III-8 One-year spot interest rates and one-year implied rates one, two and three years ahead



After a three-month interlude, on April 8th, the central bank cut its leading rate by 50 basis points (from March 1st, leading rate denotes the rate on a two-week deposit facility, which replaced the former one-month facility). This measure by the central bank surprised the market, causing yields at all maturities to fall at rates largely corresponding to the cut in the interest rate.

On April 14th, there was a considerable rise in long yields, causing implied forward rates to rise to the levels prevalent prior to the central bank's interest rate cut. The main factor in this increase was the value of the March consumer price index, made public on April 13th, which, although down on the figure for February, was higher than market expectations. This caused market participants to adjust their long-term inflation expectations, prompting in turn a rise in long yields.

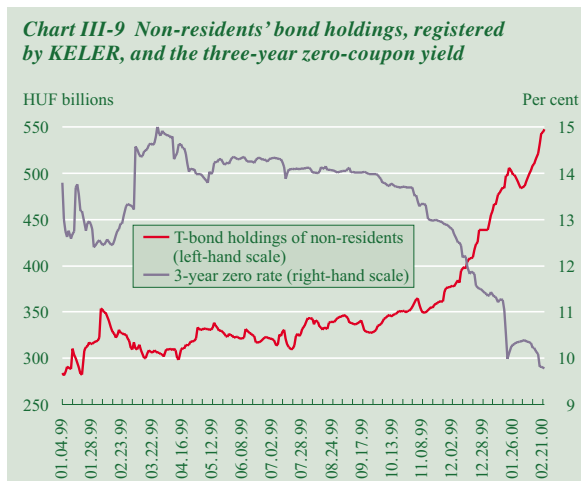
The next major event with a considerable impact on the yield curve was the April 20th announcement of a reduction in the rate of the crawl. In contrast to previous practice, the Government and the central bank announced two future dates and two reduction rates. Within the next few days following the announcement, implied forward rates starting in 2–3 years' time fell by 50–70 basis points. The rate of devaluation and the future path of short-term interest rates are correlated through the uncovered interest rate parity. The aforementioned response of the market thus implies that market participants have brought down their long-term expectations of the devaluation rate (in other words, they expect a stronger forint over the long run).

The central bank's 25-basis point interest rate cut on April 28th, following the announcement of the reduction in the devaluation rate, did not catch the market by surprise. So while yields (mainly short-term yields) fell slightly, long-term expectations were not affected by the measure, and implied forward rates starting in 2–3 years remained basically unchanged.

In the period from May to September 1999 the slope of the implied forward curve¹ declined significantly. While the spot annual yield fell by around 50 basis points, corresponding to the central bank's cut in the rate, annual yield expectations for periods starting in 1, 2 and 3 years' time rose by 40, 150 and 220 basis points, respectively.

The rising trend was steady until early July, but then in a matter of one week (8th–16th July), annual rates for periods starting in 1–3 years' time fell by 35–55 basis

¹ Levels of implied forward rates correspond to market expectations of prospective interest rates only on the fulfilment of certain conditions, but their changes provide a good source of information about changes in market interest rate expectations even against more moderate assumptions. For more details on the estimation of Zero-coupon yield curves and the calculation and interpretation of implied forward rates, see "Zero-coupon Yield Curve Estimation from a Central Bank Perspective", NBH Working Paper, 1998/2.



points. This all came in the aftermath of the largely simultaneous announcement of several favourable macroeconomic indicators (including the lower-than-expected current account deficit for May (on July 8th), and inflation and budget deficit for June (on July 13th)). These favourable indicators were seen by the central bank as sufficient justification for cutting its leading rate, namely the rate on its two-week deposit facility, by 25 basis points to 14.75% on July 13th, reinforcing the optimistic response of the market. However, the rapid fall in rates was replaced by another slow upward trend similar in extent to that last seen in May and June.

What is not completely clear in this trend is what role rising inflation expectations, long foreign yields and the increase in the risk premium on the forint played in the growth of long-term interest rate expectations. The latter two factors may exert influence on domestic yields due to the openness of the Hungarian capital market and the significant forint-denominated government security holdings of non-Hungarian residents.

Between May and September, foreign residents' bond holdings were not as volatile as earlier in the year, fluctuating in the range of HUF 310–350 billion (see Chart III-9). This was most likely related to the upward trend in foreign long yields between May and July (10-year US zero-coupon yields rose from 6% to approximately 7% and the euro yields with similar redemption dates from 4.4% to around 5.4%). It should be noted that in the case of both dollar and euro yields, there was a much stronger rise at longer maturities than at shorter ones, in other words, both yield curves sloped upward considerably. The spread between the three-year and three-month maturities of the yield curve constructed from basket currency yields grew by 80–100 basis points in the period under review, an increase broadly corresponding to that in the Hungarian yield curve.

In view of the fact that Hungarian bond purchases by foreign residents are fully liberalised, given constant ex-

pectations of the forint's devaluation rate, a rise in long-term euro and dollar yields can by itself account for a large part of the upward slope in the Hungarian yield curve.

Against the background of rising long-term yields in more advanced economies – or partly as a result of them – there was a change for the worse in the general perception of emerging market risk, which is well illustrated, for instance, by the rise from 900 to 1200 basis points in the spread of the EMBI+ portfolio, compiled by J.P. Morgan of emerging market dollar-denominated bonds, in excess of US Treasury bond yields over the period between early May and mid-August. Nevertheless, it seems difficult to judge the precise scale of the impact on Hungary of the rise in risk aversion in relation to the emerging market economies. The higher risk premium is an inadequate explanation on its own for the fact that long forint yields rose more sharply than short-term yields.

Immediate information on inflation expectations over the long term, another potential factor bearing on interest rate expectations, is only available in the form of a Reuters monthly survey of 10 to 15 macroeconomic analysts. According to this survey consumer price inflation expectations for late-1999 rose sharply in May (by approximately 25 basis points), while they remained broadly stable over the next two months, at 9.75%. Inflation expectations for late 2000 also remained largely unchanged from May to July, at a level of 7.45%. A major break in the trend is associated with the higher-than-expected 10.1% inflation rate for July, published in August. According to the August 19th Reuters survey, inflation expectations for the year-end were 10.28%. At the same time, inflation expectations for end-2000 rose only slightly, by merely 12 basis points.

Provided that the survey findings are reliable, *the rise over May to September in long-term interest rate expectations could be accounted for only to a limited extent by the rise in inflation expectations over the long*

term and the decline in the willingness to undertake risks in the emerging markets, with the predominant cause being the considerable rise in long dollar and euro yields.

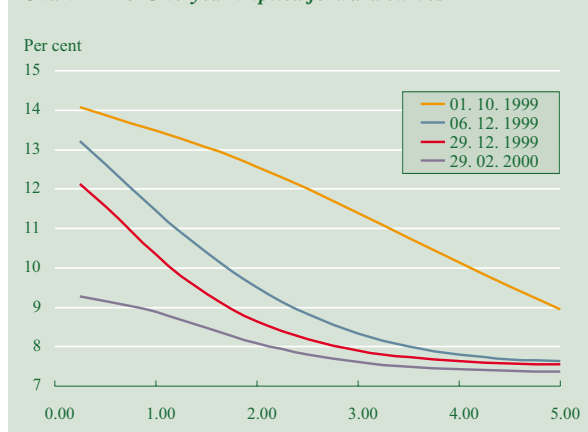
From early October 1999 to February 22, 2000, the government stock market in Hungary suffered a massive fall in yields. In this period, there was a downward, nearly parallel, shift of 350–400 basis points, depending on the maturity date, in the section of the curve representing terms of up to five-year maturities. This period with falling yields can be divided into two distinct phases. The first, ending in early December, saw a decline mainly in yields for terms in excess of one year. In the course of December, there was a parallel downward shift in the case of most maturities, except for the shortest (three-month) terms, where yields were falling at a somewhat faster pace. Over January and February, shorter yields also caught up, falling more rapidly than longer ones, and by mid-February, the slope of the yield curve had returned to its state in October, prior to the decline.

Changes in the implied forward curve (*see Chart III-10*) give an even better illustration of the continuous transformation of the interest rates expectations underlying the movements in the yield curve. The future path of annual interest rates had clearly undergone a marked change by early December, with the earlier evenly spaced annual decline of 100 basis points replaced by a more rapid fall in expectations, and an annual yield stabilising at a 7.5–8% level after 3 years. Following early December, these long-term interest rate expectations did not change significantly, and it was the steady decline in annual yield expectations for terms within 1–3 years that dominated movements in the implied forward curve, and, consequently, the yield curve.

The decline in yields over the period under review had underlying fundamental, technical and speculative reasons, the latter associated with a potential fall in central banks rates. In the period after October the composition of these factors followed a varied pattern.

The first significant fall in long yields took place in early October: annual yields for terms starting in 1, 2 and 3 years' time fell by 20 to 60 basis points. This decline was due to the publication of favourable macroeconomic indicators during that period. Second-quarter GDP growth (3.8% year on year), published on September 30th and, even more so, preliminary current account data (reporting a USD 140 million surplus, compared to zero-balance market expectations) exceeded market forecasts, boosting optimism in the government security market and pushing down long-term interest rate expectations. Meetings of FED and ECB policymakers held during the same week left leading rates unchanged, causing long-term dollar and euro yields to turn up slightly. The fact that long forint yields had declined in

Chart III-10 One-year implied forward curves



spite of the above indicates that yields in this period were influenced by favourable country specific news.

The first week of November witnessed the recurrence of the October episode, but this time with a much more intensive fall in yields. Within a matter of five days (Nov. 1st-5th) implied forward rates fell by 50, 120 and 130 basis points on the 1, 2 and 3-year time horizons, respectively. Just as in early October, the driving force behind this decline was the public announcement of a few better-than-expected macroeconomic indicators. On October 29th, the Fitch IBCA international credit rating agency upgraded Hungary's external debt by one grade. The benefit of this measure for the market of forint-denominated government securities was seen in the start of a decline in long yields. The three macroeconomic indicators announced on November 3rd, such as the USD 93-million deficit on the September preliminary current account (as opposed to market expectations averaging around USD 220 million), the September industrial output data and the October budget deficit, all highlighted a much better-than-forecast economic situation, inducing a further fall in long-term yields. Prompted by the favourable macroeconomic data, the National Bank of Hungary cut its two-week deposit rate by 25 basis points to 14.5% on November 4th, giving additional impetus to business in the bond market. Somewhat later that day, the ECB raised its leading short-term rate by 50 basis points. This move, which was aimed at restricting inflation and was regarded as credible by market participants, appeared to put a mild downward pressure on euro interest rates.

November 10th and 11th saw another fall in yields, even more concentrated than the preceding two declines. One-year implied forward rates over the 1, 2 and 3-year horizons, also reviewed earlier, were down by 60, 140 and 100 basis points, respectively, in a matter of two days. The fall was particularly strong on November 11th, when the October consumer price index was made public. Although the 10.5% (year-on-year) rate, published by the Central Statistical Office, fell short of average market expectations (10.62%), this was not an adequate reason for such a sharp fall.

Although from early September until late December the spread of the EMBI bond portfolio index above US Treasury bonds, published by J. P. Morgan in assessment of emerging market risk, displayed a downward trend, the timing of the decline in forint yields suggests that these *multiple falls were mainly due to the realisation by market participants of the favourable country-specific macroeconomic developments, with the better general perception of emerging markets providing only an additional impetus.*

The preliminary balance of payments figures for October, published on December 3rd, were again better than market expectations (by roughly USD 110 million), which

constituted another factor reflecting a positive change in fundamentals and, thus, inducing a fall in yields.

In the course of December, however, reasons associated with fundamentals were complemented by technical factors, including the removal of the US dollar from the currency basket as of January 1st. As dollar rates at that time were much higher than euro rates (the difference in early December was about 270 basis points at the three-month maturity), this technical change in itself would have raised the forint's interest rate premium relative to the new currency basket by about 80 basis points (with forint interest rates and the devaluation rate remaining unchanged).

If the market had recognised this impact of the basket change in time, forint yields would have started to fall gradually, well before the introduction of the new basket, in order to "work off" this 80-basis-point technical premium. The decrease would have been gradual, first affecting long-term then short-term yields, depending on how much of the remaining maturities fell in the period following the adoption of the new basket. In this ideal scenario (i.e. if the market previously recognised the prospective effect of the change), by the time the new basket is adopted the interest premium cannot include the technical premium caused by the basket change. It cannot be ruled out, however, that it was not until December, i.e. relatively late, that the market discovered the presence of this extra premium. This would account for the exceptionally high foreign demand for bonds with short remaining maturities from the second week of December. The last three weeks of December not only saw a significant increase (by about HUF 60 billion) in government security holdings of non-Hungarian residents, but the shortening of average maturity from 2.5 years to 2.25 years as well, which implies a shift of preference towards short-dated securities.

Although short rates began to fall more quickly than long-term rates as early as December, the difference in the speed of fall became most visible in January and February: by this time the slope of the yield curve had returned to the September level. One plausible explanation for short-term interest rates taking a longer time to adjust is the uncertainties stemming from Y2K concerns. As Y2K concerns dissipated in January, there was no longer any obstacle to a downward correction, bringing the short end of the yield curve into line with the sound fundamentals.

There are several indications that, in addition to the technical factors, speculation on the rapid adjustment of short-term interest rates was also a factor contributing to the yield drop in January and February. These indications include a jump in the two-week central bank deposit facility holdings of commercial banks, a continued decline in the average maturity along with a sharp rise in the amount

of foreigners' forint-denominated government security holdings (despite the slight increase in the EMBI spread after January, implying some deterioration in the general perception of emerging economies) and the increase in on-balance-sheet forex open positions by commercial banks. These phenomena also imply that some market participants began to see a potential appreciation of the forint as more probable compared to previous periods.

Having examined the fundamental, technical and speculative reasons for the yield decrease since October, it is worthwhile to examine their effect on the composition of nominal yields: in other words, how much of the decrease was caused by the decline in real interest rates, inflation expectations and risk premia, respectively. From October to December market analysts' average forecast inflation² for end-2000 (as surveyed by Reuters) decreased only to a small extent, by around 50 basis points, and even increased slightly in January and February.

Thus, the greater part of the approximately 400-basis-point decrease was caused by the decline of the risk premium and the real interest rate. Some indirect information on long-term real interest rate expectations is provided by the secondary market price of the 2005/D index-linked bond. This bond is rather illiquid, but the implied five-year real interest rate, calculated on the basis of the mandatory price quoting of the bond, showed a robust drop of around 100 basis points in January, bringing the long-term real rate down to around 4%. This seems to imply that the contribution of fundamentals to the yield fall took place primarily via the decrease in the forint's risk premium. This assumption is supported by the fact that among the fundamentals it was the sequence of better-than-expected current account deficits for October and December which had the greatest impact on the yield curve, as this macroeconomic indicator probably has the most direct impact on the forint's risk premium.

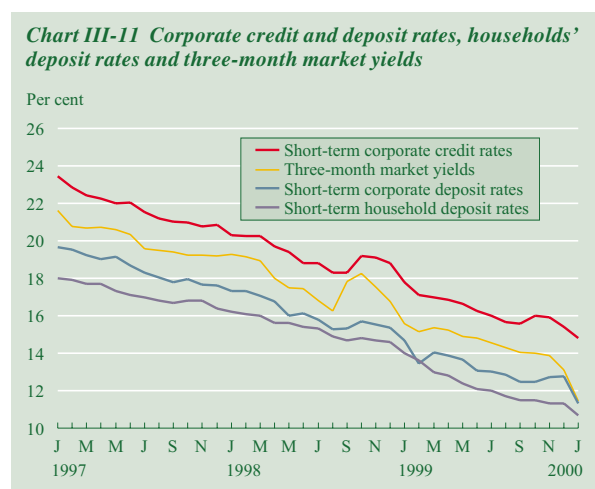
The behaviour of the central bank in the period under review is worthy of closer examination. In October and December, when long-term yields were falling, the Bank proceeded with caution in following market movements. It had two clear reasons to do so. First, the adjustment of the forint's interest premium to the lower required risk premium was facilitated by the rise in foreign interest rates (the ECB and the FED raised short-term leading rates by 50 and 25 basis points on November 4th and 16th, respectively). Second, Y2K concerns called for a more cautious interest rate policy than usual. Accordingly, over this period the Bank cut the rate on its two-week deposit facility only twice (by 25 basis points each time), on November 4th and December 17th. When it became clear that the millennium date change had

caused no greater problems than expected, the Bank was ready to make a more substantial move (a 50-basis-point reduction on January 4th), in line with the decrease in short-term market yields.

The exceptionally rapid fall in short-term yields in early January, combined with indications that this was partly due to the market's stronger expectations of appreciation, prompted the Bank to take firmer action. The 150-basis-point reduction in the two-week deposit rate on January 19th was to convey the message to market participants that the Bank continued to regard the narrow-band crawling peg devaluation system as the appropriate nominal anchor. It tried to make clear that the Bank is willing to accept a decrease in the real interest rate in exchange for maintaining the crawling peg system, provided that sterilisation costs remained reasonable. The current 2.5–3% level of the one-year forward-looking real interest rate is not without precedent, as similar rates were observable in the period before the Asian crisis in 1997. However, the slowdown in interest-sensitive capital inflow and the reduced speed of the accumulation of the Bank's two-week deposits which followed the significant cut in the Bank's short interest rate proved to be only temporary, despite foreign interest rate hikes (February 2nd, FED; February 3rd, ECB: 25 basis points each). Therefore, the Bank resorted to another 50-basis-point cut on February 17th, in another demonstration of its commitment to the narrow-band exchange rate regime.

3 Interest rate policy of commercial banks

Consistent with the disinflation process, central bank rates, market yields and commercial bank interest rates continued to follow a downward trend in 1999 (see Chart III-11). The interest rate policy of commercial



² Average forecast refers to the average of estimates produced by the survey, ignoring the lowest and highest values.

banks has essentially been determined by the strong competition existing for several years to win corporate customers, the decline in banking profitability and the up-and-coming household market.

Given the merely indirect effect – acting through market yields – of central bank interest rates on commercial banks' lending and deposit rates relevant for real economic decision-making, an analysis of the transmission mechanism between market yields and commercial banks' interest rates may provide some important information on the ways the central bank's interest rate policy influences commercial banks, developments in the banking system, as well as the demand of businesses and households for credit and deposits. In respect of corporate customers, the transmission between market yields and commercial credit and deposit rates has worked in a balanced and efficient way for several years (see *Chart III-12*). The nearly three-year stability of the low margin (roughly 1.5 percentage points) between corporate credit rates and market rates reflects the intense competition that emerged some years ago in the area of lending to businesses. The struggle to keep good corporate customers is reflected in the size of the margin, as low as 1.5 percentage points, between market yields and average interest rates on corporate deposits for terms shorter than one year, also implying that commercial banks offer their best corporate customers interest rates that are very close to market yields.

With the corporate market becoming saturated, bankers are beginning to set their sights on the household sector. The need for increasing forint liabilities has led to an improvement in the standard of services to individuals, as well as to a decline in the spread between market yields and households' deposit rates. The increase in the efficiency of transmission between market and household deposit rates is shown in *Chart III-13*, with the average spread down from 2.5 to 1.5 percentage points over the period between 1997 and 1999. Disintermediation has also contributed to the shrinkage of the spread, as the objective of keeping and increasing households' deposits has encouraged commercial banks to reduce the spread between deposit rates and the yield on non-bank investments.

The intense competition associated with the corporate sector, the relative increase in the price of household liabilities and the low profitability seen in 1998 and 1999 made more and more banks take up lending to households, an apparent source of untapped growth potential. The volume of consumer credit tripled between January 1998 and January 2000, despite the fact that consumer credit rates are rather high and were falling at a slower pace than other commercial bank credit or deposit rates. The margin between the interest rates on households' credit and deposits amounted to 10–12% in 1999. There

Chart III-12 Corporate credit rates for terms shorter than one year and the yield on three-month Treasury bills

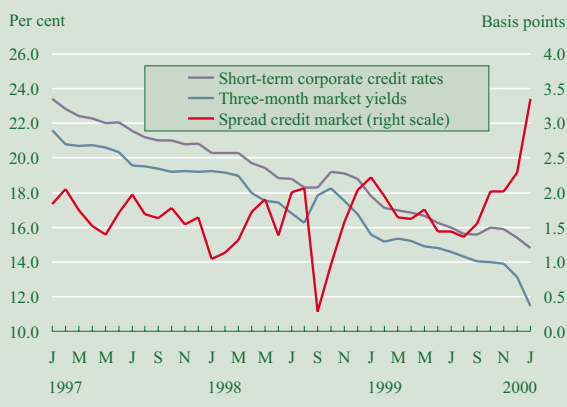


Chart III-13 Spread between yields on government securities and households' deposit rates

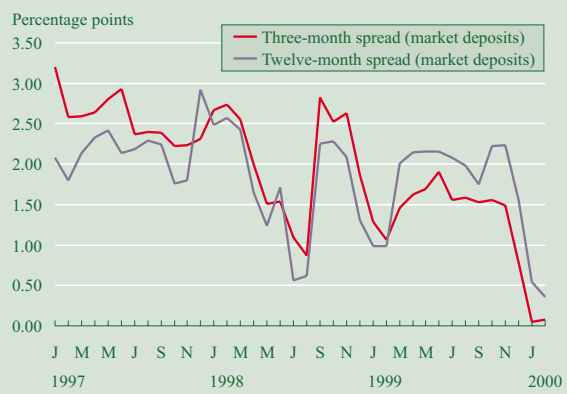
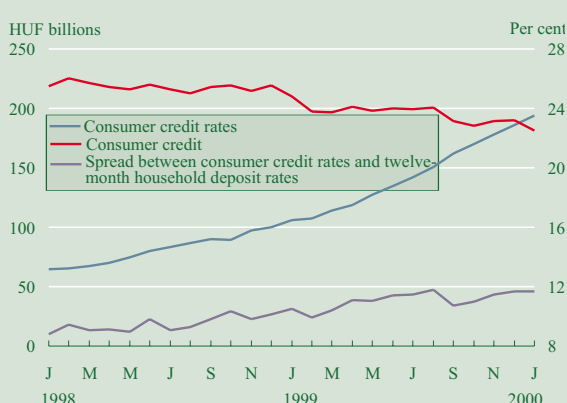


Chart III-14 Rates of interest on consumer credit, its volume and the interest rate margin for terms shorter than one year



is a rather large dispersion behind the average borrowing rate, displayed in *Chart III-14*, and the full credit cost index, which represents the real costs of borrowing, is in the 20%–40% range. These high interest rates can be attributed to various factors. The key factor in terms of demand is that a large number of previously liquidity-constrained households have gained access to consumer credit. The interest rate elasticity of the credit demand of these

households is not too high, and low monthly instalments appear to have such allure that seems to offset the extra costs due to the high rates. A supply-side factor behind the high rates is that this type of lending is relatively costly and, additionally, continues to be rather risky. In spite of the high rates, the expansion in the supply of consumer credit is a welcome phenomenon, taking households closer to their desired level of consumption, consistent with their life cycles and increasing the efficiency of consumption smoothing over time.

4 Monetary aggregates

It is crucial for central banks to monitor the movements of monetary aggregates, since unintended increases in the money supply tend to generate inflationary pressures. Nevertheless, events in 1999 indicate that the changes in the monetary aggregates are broadly due to factors affecting demand for money.

Chart III-15 Growth of monetary aggregates in real terms
(Three-month moving average, same month a year earlier = 100)

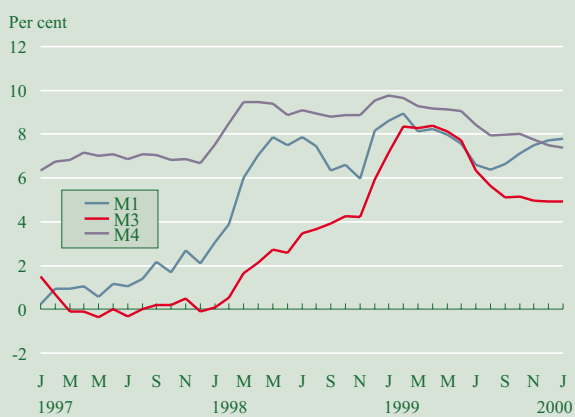


Chart III-16 Velocity of circulation of M1
(1997 Q1 = 1)

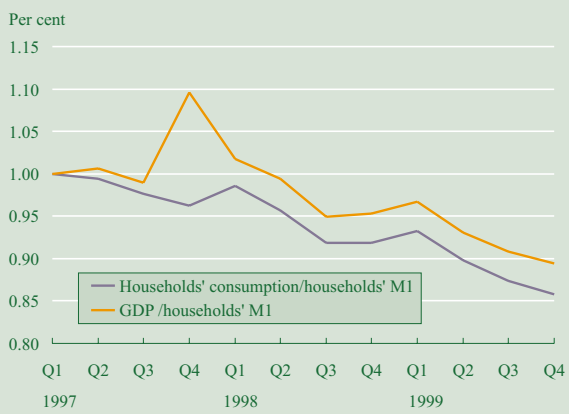
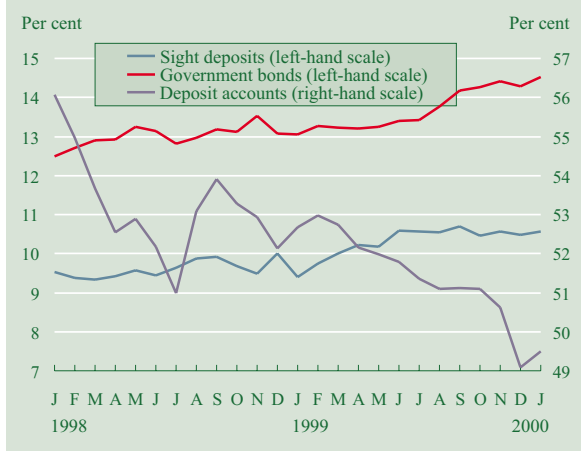


Chart III-17 Households' current account, deposit account and government bond holdings as a proportion of net financial wealth



In 1999, the growth rate of monetary aggregates in real terms was down on a year earlier. After declining slightly over the first half of the year, the real growth rate of M1 returned to the preceding level over the second half. Although from late 1998, M3 and M4 grew in real terms at a converging pace, after the first four months, the gap between the growth rates began to widen again (see Chart III-15).

M1 comprises the most liquid assets, such as notes and coin and current accounts. Transactions-based demand for money is not observable statistically, but nonetheless, changes in M1 provide some clues to its evolution. Unintended growth in M1 may exert the strongest inflationary pressure. Changes in transactions-based money demand can be traced through monitoring the velocity of circulation.

Since 1998 the velocity of circulation has been falling, implying an increase in individuals' transactional money holdings over the period (see Chart III-16). This, however, has not created inflationary pressure, as the increased money holdings could be attributed to factors influencing the demand for money. First, thanks to disinflation and falling nominal interest rates, the alternative cost of liquid assets has fallen. Second, structural causes have also contributed to narrow money growth, with a pick-up in banking services associated with sight deposits and current accounts offered to households, with special regard to the various card transactions, boosting the share of current accounts at the expense of deposit accounts (see Chart III-17). It should also be noted that in late 1999, as a result of concerns over the millennium date change, notes and coin outside the banking system surged by roughly HUF 70 billion, returning to its previous level in early 2000.

The divergence between the growth rates of M3 and M4 can be explained by portfolio decisions. In contrast to M3, M4 also comprises non-bank assets. In the course of 1998, the weight of higher-yielding non-bank assets in investors' portfolios continued to increase steadily up until the Russian crisis in August. In the aftermath of the crisis, investors abandoned riskier investments in favour of safer bank instruments (see Chart III-18). This trend, which was reflected in the convergence between the real growth rates of M3 and M4, after continuing into the first half of 1999, appeared to reverse in the second half (see Chart III-15). Investors returned to riskier, but higher-yielding instruments.

While in the first half of the year the household component expanded at the fastest pace among the components of M3, this trend seemed to reverse in the second half. The growth rate of the household component, a major factor in the composition of M3, declined, for the above-noted reasons, while the expansion of the usually more volatile corporate component began to gather pace (see Chart III-19).

The net financing requirement of the corporate sector fell significantly over the first six months. This was mainly due to the fact that the economic recovery in Western Europe more than offset the impact of the market loss caused by the Russian crisis, keeping company profitability in continued peak form. At the same time, partly owing to the Kosovo crisis and partly to the downturn in expectations due to macroeconomic uncertainty, investment was sluggish. Companies' financial position improved considerably, especially as a result of the accumulation of financial assets. In the second year-half, even against the background of lower borrowing, companies managed to fund their investment projects. In 1999 Q4, selling off stocks of government securities built up earlier provided the corporate sector with funds amounting to 1% of GDP. Another factor in the divergence between the financing requirement and corporate borrowing was the pick-up in foreign direct investment. Capital inflows, taking place via raising additional capital, enabled companies to reduce their borrowing requirement, in spite of high spending on investments (see Chart III-20).

Foreign exchange continued to play a key role in company financing. Among those Hungarian companies making use of external financing a dominant role is being played by large companies that display flexibility in substituting forint credit for foreign exchange credit, and vice versa. The prospective export revenues of the majority of the corporate sector provide natural hedging, and the longer average maturity of foreign exchange loans also reduces renewal risk. It is no surprise that corporate foreign exchange borrowing has become removed from the forint position especially at times, such

as the Russian crisis or late 1999, when the forint's interest rate premium was permanently higher than the level consistent with corporate sector expectations.

Chart III-18 Households' total non-bank assets as a proportion of net financial wealth



Chart III-19 Real growth of the household and corporate components of M3 (Three-month moving average, real growth, same month a year earlier = 100)

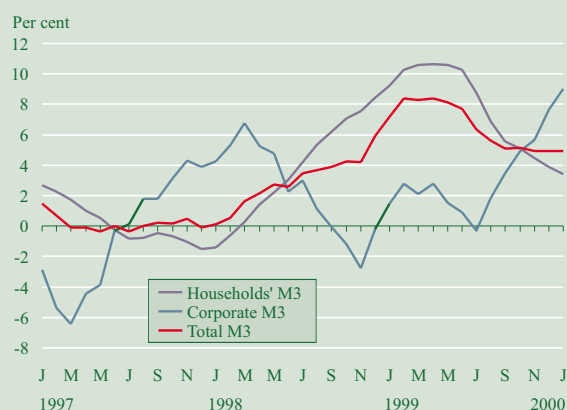
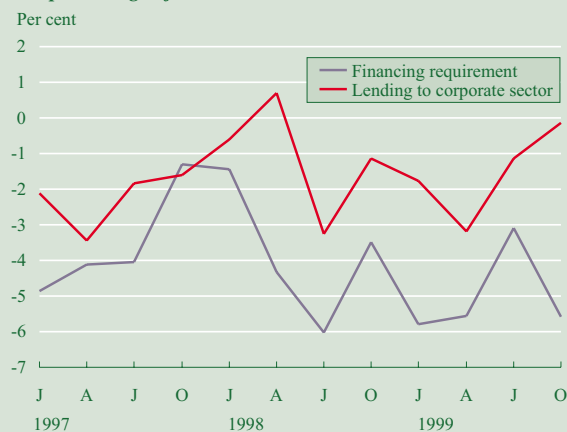


Chart III-20 Seasonally adjusted, operational financing requirement and borrowing of the corporate sector, as a percentage of GDP



IV. Demand

In 1999 the volume of gross value added (GDP) increased by an estimated 4.4% compared with 1998. As a result of changes in demand, GDP expanded moderately at the beginning of the year (Q1: 3.3%, Q2: 3.8%), with a considerable surge in economic activity then occurring later in the year (Q3: 4.4%, Q4: 5.6%). The small, 0.5-percentage-point decline in the annual growth rate over the previous year and tendencies during the year indicate that the Hungarian economy responded quickly first to the drop in external activity and then later to the upswing in demand.

GDP grew in parallel with domestic absorption, at a nearly identical rate of 4.5%, indicating that the gap between GDP growth and the expansion of domestic absorption, which had widened in 1998, narrowed in 1999. The slowdown in domestic absorption growth was due to much weaker gross capital formation compared with the previous year. Responding to changing external cyclical conditions, most economic agents reigned in their investment activities, reflected by a low investment rate early in the year, which then picked up in the second half. For the year as a whole investment expanded by 6.6%, only half the level of the exceptionally strong

growth rate seen in 1998. In addition to weaker investment, running down inventories accumulated in the aftermath of the Russian crisis also contributed to a fall from 5% in 1998 to 1.2% in 1999 in the contribution of gross capital formation to GDP growth. By contrast, consumption steadily gained momentum in the course of 1999, with consumer demand becoming the other driving force behind growth, in addition to exports, in contrast with the previous years when growth was driven by exports and investment. Household consumption rose by roughly 5%, similar to 1998, and public consumption by 2.8%, compared with a standstill in 1998 (see Table IV-1).

Hungarian economic integration into the world market continued in 1999, with the proportion of exports and imports relative to GDP rising further. As a result of the drop-off in external demand and the concomitant slowdown in the expansion of export capacities, export growth within the framework of GDP was lower than the exceptionally high rates recorded in 1997 and 1998. Simultaneously with this slowdown in exports, the restructuring of domestic demand in favour of consumption requiring lower levels of imports than investment

Table IV-1 Annual growth rate of GDP and its components

Per cent

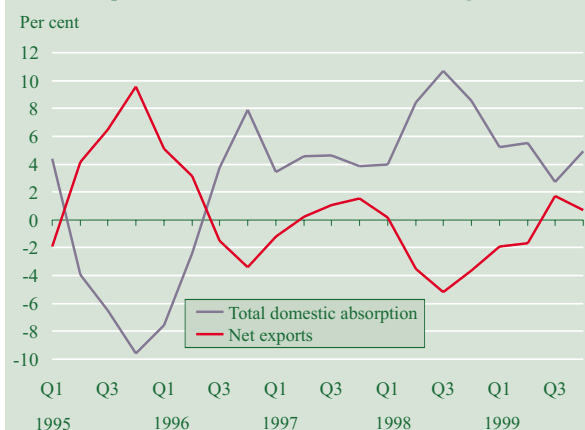
	Change in volume			Contribution to GDP growth**			Structure (at current prices)		
	1997	1998	1999*	1997	1998	1999*	1997	1998	1999*
GDP	4.6	4.9	4.4	4.6	4.9	4.4	100.0	100.0	100.0
Total consumption	2.3	4.2	4.7	1.7	3.0	3.4	72.1	71.6	71.8
Household consumption	1.7	4.9	5.0	1.1	3.0	3.1	61.6	61.6	61.9
Public consumption	5.7	-0.2	2.8	0.6	0.0	0.3	10.5	10.0	9.9
Gross capital formation***	9.0	17.9	3.9	2.4	5.0	1.2	28.0	31.5	31.3
Fixed capital formation	9.2	13.3	6.6	1.9	2.9	1.6	22.0	23.8	24.3
Total domestic absorption	4.1	8.0	4.5	4.1	8.0	4.6	100.1	103.1	103.1
Exports	26.3	17.1	13.5	10.4	8.2	7.2	47.7	53.2	57.9
Imports	24.8	23.7	13.1	-9.9	-11.3	-7.4	47.8	56.3	61.0
Net exports				0.5	-3.1	-0.2	-0.1	-3.1	-3.1

* The GDP estimates used in the Report are partly Bank estimates and may differ from official data published by the Central Statistical Office. Quarterly Bank estimates are based on preliminary data for 1998 published by the Statistical Office in January 2000, but take into account revisions to the balance of payments, such as the separation of business travel and the outcome of the review of currency purchases from residents by non-bank foreign exchange trading institutions. These estimates are consistent with Bank analyses describing the income positions of certain income holders.

** Due to rounding, the entries do not always add up precisely.

*** Includes the statistical discrepancy, represented by the difference between the results of calculations for production and absorption.

Chart IV-1 Contribution of domestic absorption and net exports on the national accounts to GDP growth



put considerable downward pressure on import growth. Although only to a small extent, export growth (13.5%) as a proportion of GDP again exceeded import growth (13.1%) in 1999. The contribution of net exports to real GDP growth improved so that in the first half of the year net exports hampered growth on a smaller scale than earlier, turning into a positive figure from the third quarter (see Chart IV-1). By contrast, at current prices the trade balance within GDP did not improve in 1999, largely on account of worsening terms of trade.

1 Household consumption

As in 1998, the *real income* of households expanded by 3.5% in 1999. Thanks to rapid disinflation, the over 4% growth rate of operational income¹ has exceeded growth in real income over the past two years. The rise in incomes went hand in hand with 5% growth in *consumption*, corresponding to the rate for the previous year (see Chart IV-2). There was a continuation of the trend that individuals' total consumer and investment spending rose at a higher rate than disposable income, reflecting positive income expectations by households.

¹ Operational income is total income less the part of interest receipts from households' savings offsetting inflation. In an economic sense, this factor is aimed to compensate for the depreciation of wealth. Assuming sensible behaviour on the part of households, it increases savings. Presumably, households' consumption and savings choices are closely correlated with changes in operational income.

² Incomes on capital, ensuring the preservation of households' financial wealth and offsetting depreciation associated with inflation, follow a downward trend in nominal terms during times of disinflation.

Growth in disposable income was broadly due to the 4.7% increase in net earnings, a rise similar to that in consumption. Earnings rose at a higher rate and benefits in kind at a lower rate than a year earlier (see Table IV-2).

Due to the fact that *cash benefits* in real terms expanded at a slower pace over the year as a whole, the growth rate for this item fell by nearly 3 percentage points, from 5.4% in 1998 to 2.4% in 1999.

This was primarily due to the decrease in real terms in unemployment-related transfers. Old age pensions grew by 3.6% in real terms. The annual seasonality of cash benefits was determined by pension payments. In 1999, there was only one differentiated rise in pensions, as of January 1st, while in 1998, in addition to the January rise, there was also one in August, retroactive to January.

Benefits associated with childcare are substantial in Hungary. Income from this source to entitled families rose by 3.5% in real terms, but at the level of the individual recipient there was a decline in real terms, especially with respect to the family allowance. In addition, the childcare fee was wound up, while the family allowance and the childcare benefit became universal from January. Similar to the lowest pensions, the childcare benefit rose by 1.5% in real terms.

In contrast to their exceptionally robust growth a year earlier, the volume of *benefits in kind* rose by only 2.4% in 1999.

Health benefits rose by about 1% in real terms, and educational support – due to higher benefits to teachers – were up by nearly 4%.

Proprietary incomes comprise predominantly interest revenues, which showed more moderate development, in parallel with the decline in the rate of inflation (see Table IV-3).²

Chart IV-2 Growth of household consumption and operational income (Previous year = 100)

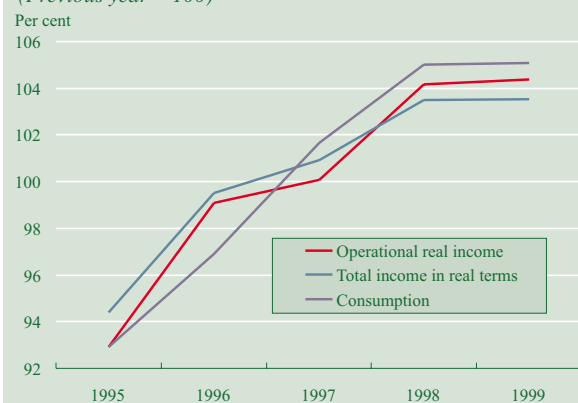


Table IV-2 Composition of income in real terms

	Per cent		
	1997	1998	1999
Net earnings	100.4	103.1	104.7
Social benefits	100.3	106.7	102.4
Of which: benefits in cash	98.7	105.4	102.4
benefits in kind	102.1	108.0	102.4
Proprietary income	116.8	102.3	100.1

Expectations were more optimistic in response to brighter prospects for growth and incomes, as well as high employment growth, as is also reflected in the consistently high level of households' confidence. This, combined with the easing of liquidity constraints, led to faster consumer borrowing aimed at financing the robust growth in consumer spending. Households' annual average propensity to borrow approached 1% as a percentage of net credit transactions and disposable income (*see Chart IV-3*).

In addition to rising consumer demand, household investment spending also experienced an upturn in 1999, reversing the downward trend seen in 1998. The turnaround in investment was primarily related to the introduction of tax concessions which encouraged households to delay home building projects in 1998 until 1999. In spite of the small number of dwellings taken into use in the course of the year, investment in housing appeared to be buoyant on the whole, owing to the boom in new home construction. This robust investing by households throughout 1999 can only partly be explained by the housing projects put on hold in 1998 in anticipation of the changes in the VAT regulations. Easing of liquidity constraints and the rearrangement of individuals' portfolios were also among the factors at work. Households also began to switch over to real assets, a trend reflected in soaring housing prices.

In 1999, households stepped up spending at a faster pace than their incomes grew, which led to a decrease in the inflation-adjusted *financial saving rate* to 4.5%, down by 2 percentage points on a year earlier. The fall in the financial saving rate could be regarded as a correction for the temporarily high rate of 1998. However, the over 0.5% drop in the inflation-adjusted total saving rate highlights the change in households' consumption versus savings choices. Even the growth in household investment in 1999 as a whole was unable to counteract the slowdown in financial savings growth (*see Chart IV-4*).

The deterioration in households' net financial position can partly be attributed to the rise in borrowing by individuals during 1999. The *composition of financial assets* held by individuals began to show signs of a natural return to the conditions prevailing prior to the 1998 crisis, which, by shaking public confidence, caused non-bank savings to gradually lose momentum. Yet, from early in the year, savings began to steadily trickle back into such assets, in particular with regard to government bonds and unit trusts, while the share of equities in households' portfolios continued the downward trend throughout the year. The average share of non-bank savings in households'

Table IV-3 Breakdown of income

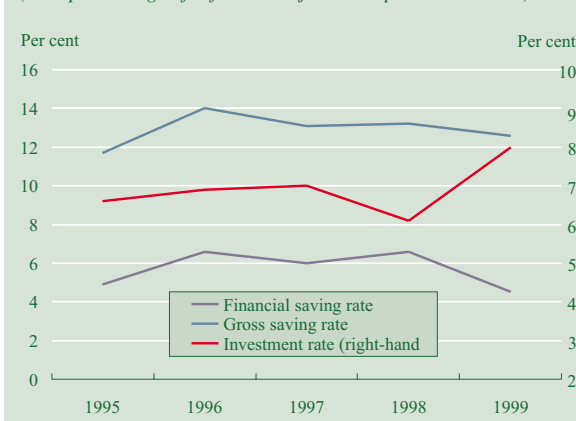
	Per cent		
	1997	1998	1999
Net earnings	55.8	55.6	56.0
Social benefits	35.4	36.2	36.2
Of which: benefits in cash	18.4	18.8	18.5
benefits in kind	16.9	17.4	17.7
Proprietary income	6.7	6.7	6.4
Other*	2.2	1.5	1.4
Disposable income	100.0	100.0	100.0

* Including balances of insurance, foreign currency, gambling and local taxes.

Chart IV-3 Households' net borrowing
(As a percentage of inflation-adjusted disposable income)



Chart IV-4 Inflation-adjusted financial and gross saving rate and households' investment rate
(As a percentage of inflation-adjusted disposable income)



net financial savings amounted to 50% for the year as a whole. Non-bank savings continued to be dominated by demand for government bonds, but the growing popularity of unit trusts, pension funds and insur-

Chart IV-5 Share of non-bank savings in households' net financial savings

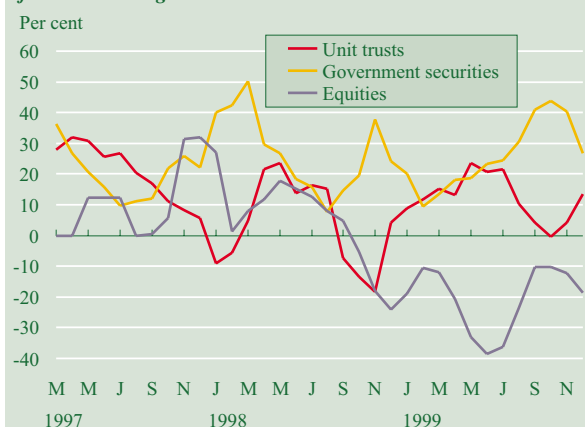
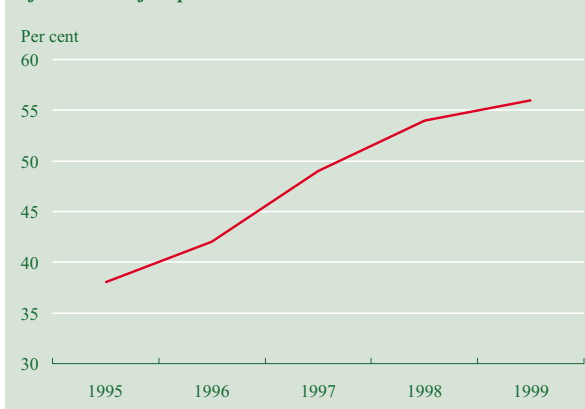


Chart IV-6 Households' net financial wealth as a percentage of the trend of disposable income



ance companies also gave impetus to demand for non-bank assets (see *Chart IV-5*).

Thanks to the expanding supply of credit to households, the ratio of net financial wealth to individuals' incomes grew at a slower pace in 1999, thus breaking the upward trend of the previous years (see *Chart IV-6*). As this ratio still appears low by international comparison, the upward trend is expected to resume over the long term. Nevertheless, the low level of indebtedness within the household sector makes forecasting the short-term path of this indicator rather difficult.

2 Investment

2.1 Fixed capital formation

The first and second halves of 1999 appeared to have followed diverging trends in terms of whole-economy fixed capital formation. The impact of the Russian crisis in late 1998 and weak activity in the EU

continued to feed through to the Hungarian economy even during the first half of 1999, hampering investment. Nevertheless, the upturn in external demand from the second half led to a slight recovery in investment. All in all, fixed capital formation rose by 6.6% in 1999 as a whole. Partly because of the strong base effect, this fell short of the exceptionally high rate of 1998, but still exceeded the average for Western European countries.

The slowdown in investment growth compared with the previous year reduced the contribution of fixed capital formation to GDP growth. Whereas in 1998 half of GDP growth was due to rising fixed capital formation, this proportion fell to 35% in 1999. In contrast with the steady increase over the previous years, the proportion of fixed capital formation in GDP (23.5%) remained basically unchanged. It is nonetheless a reassuring sign that the share of private sector investments continued to increase, even if only to a small degree, while the share of public investments continued to decline, by 0.3%, continuing the trend experienced in 1998.

By sectoral breakdown, investment showed no significant change relative to 1998 (see *Table IV-4*), with manufacturing continuing to account for over one-fourth of whole-economy investment. Material services accounted for roughly 45% of total investments. The weight of agriculture appeared to fall somewhat, parallel to an increase in the share of non-material services.

The fact that manufacturing investment growth fell to around one-third of the rate for the previous year (from 23.2% to 7.7%) was partly due to the exceptionally high starting point in 1998, as well as the existence of capacities that were, on the whole, capable of satisfying demand in 1999. Nonetheless, quarterly surveys³ of manufacturers suggest that towards the end of 1999 economic agents took a more optimistic view of the business environment and prospects, which is an indication of rising investment intentions.

Investment growth in construction was essentially determined by the state of overall investment as well as by home building projects. Consequently, performance in 1999 lagged behind the exceptionally strong levels for 1998. Surveys indicate that output was most strongly hampered by the slowdown in housing construction, in contrast to the marked growth in specialist and assembly industry orders.

Household consumption, which gradually strengthened over the year, led to buoyant investment activity in the areas of classical market services, with special regard to hotels and restaurants, as well as wholesale and retail trade (up by 15.7% and 13.2%, respectively, on a year earlier). Investment in transport and communica-

³ Top-100 Business Cycle Index, Ecostat, January 25, 2000. Conditions and short-term prospects of manufacturing and construction industry enterprises in January 2000, Kopint-Datorg, January 2000.

Table IV-4 Composition of whole-economy investment

Sector	Per cent					
	Distribution			Volume index (Previous year = 100)		
	1997	1998	1999	1997	1998	1999
Agriculture, hunting and forestry, fishing	3.6	3.6	3.3	116.3	111.6	96.7
Material production	30.2	33.7	33.8	107.7	121.7	107.4
Mining	0.3	0.5	0.7	106.2	107.6	149.6
Manufacturing	23.2	25.7	25.8	109.0	123.2	107.7
Electricity, gas, steam and water supply	6.7	7.6	7.3	103.2	117.3	103.8
Construction	1.7	1.9	2.0	89.3	120.2	112.1
Material services	51.4	45.5	45.4	108.3	103.7	107.1
Wholesale and retail trade, repair of motor vehicles, motorcycles, personal and household goods	6.4	6.8	7.1	88.6	123.0	113.2
Hotels and restaurants	1.0	0.9	1.0	131.5	113.7	115.7
Transport, storage and communications	18.9	16.6	15.7	127.3	109.7	101.9
Financial intermediation	2.5	2.8	2.4	83.7	147.7	90.5
Real estate, renting, business activities and housing investment	22.6	18.4	19.2	99.8	88.0	111.6
Non-material services	13.1	15.2	15.5	124.9	107.2	109.7
Public administration and defence, compulsory social security	3.9	6.0	7.0	138.5	101.9	127.0
Education	2.1	2.0	2.2	107.2	95.0	115.9
Health and social work	2.6	2.4	2.0	117.9	108.1	90.1
Other community, social and personal service activities	4.5	4.9	4.4	125.7	117.1	95.7
Total	100.0	100.0	100.0	108.5	111.4	106.6

tions was hampered by the cancellation of public road construction projects, which – with proposed financing from government-guaranteed loans – would have increased the private sector investment rate. With regard to financial services, the large-scale developments of the previous year and the low profitability in 1998 equally contributed to the 10% drop in the real investment rate in 1999, compared with a year earlier.

Weak investment in agriculture in 1999 shows that the sector was still facing grave difficulties. Low demand, in addition to structural and profitability-related problems in this sector, hampered sound investment.

In the field of non-material services, administration and defence saw the implementation of some major investments, primarily in relation to Hungary's NATO membership. Education also saw robust investment growth, presumably owing to stronger private sector involvement (by the market, churches, etc.). By contrast, investments in the health sector fell by 10% in real terms.

By sectoral breakdown, the private sector continued to increase its share in 1999, accounting for about 85% of total economic investment. The overall decline in investment brought down the sector's annual growth rate from 10% in 1998 to around 6–7%. Households invested more dynamically in 1999 than did the corporate sector, primarily as a result of a rise in home-building intentions

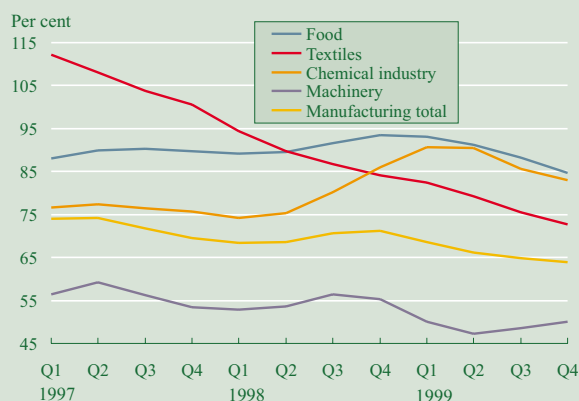
due to the new regulations on the VAT refunding. By the end of the year, the number of new dwellings had approached the figure for a year earlier, and the number of building permits had increased by roughly 30%. At the same time, it is possible that part of household investment expenditures was recorded under business investment.

In the Budget Act the Government planned a 4–5% rate of investment growth, which could have climbed even higher on account of the development projects carried over from 1998. Early in the year, however, the government was forced to freeze its reserves, thereby putting on hold a number of investment projects. Emergencies such as floods and inundation due to high ground waters necessitated a further reallocation of funds, enhancing downward pressure on investment. Public investment declined sharply. The first signs of improvement in this respect surfaced in the fourth quarter, but the annual rate still remained subdued, down by approximately 1.2% on a year earlier, in real terms.

2.2 Inventories

In contrast with 1998, whole-economy inventory investment appeared to have a retarding effect on GDP growth in 1999. Detailed series on changes in inventories, re-

Chart IV-7 Output inventories to sales ratio *



* The ratios were constructed by dividing the closing stock of inventories of a given quarter by the average sales data of the months in the quarter. The ratios are constructed from seasonally adjusted data. The inventory data estimated for 1999 Q4 were estimated using the method presented in the Bank's June 1999 Inflation Report.

Chart IV-8 Input inventories to sales ratio *



* The ratios were constructed by dividing the closing stock of inventories of a given quarter by the average sales data of the months in the quarter. The ratios are constructed from seasonally adjusted data.

flecting cyclical changes, are available for the manufacturing sector. The following is an analysis of such series.⁴

Changes in manufacturing inventories are primarily influenced by the mechanical engineering segment, owing to its considerable weighting in the manufacturing sector. In terms of mechanical engineering output inventories, consisting largely of finished goods, the stocks to sales ratio declined over the first half of 1999, from its peak in the aftermath of the Russian crisis in 1998 Q3, and then turned up again during the second half of 1999. Inventory levels of input commodities and heating fuels showed a similar trend.

As there was a simultaneous increase in sales, the rise in the stocks to sales ratio can be regarded as *intentional* stockbuilding, reflecting rising confidence in the continuation of the recovery in mechanical engineering.

The recession in the *chemical industry* seemed to turn around in the course of 1999. Both stages in the process were clearly visible in the inventories to sales ratio. Until mid-1999, levels of both output and input inventories moved upward, reflecting *unintentional* inventory investment, and then, simultaneously with the recovery, they plunged in the second half of the year. Other branches of the manufacturing sector displayed no major changes.

After the reverberations of the Russian crisis died out, the output inventories to sales ratio in the *food industry* dropped to the pre-crisis level, and the *textile industry* ran down inventories as a result of the surge in exports (see Charts IV-7 and IV-8).

3 The fiscal stance

The impact of general government on demand can be assessed by different measures, all of which indicate that while general government fuelled demand perceptibly in 1997 and, to a smaller extent, in 1998, the preliminary data for 1999 indicate a restriction.

The most straightforward indicator of the demand impact are the changes in the primary balance (see line 18 of Table IV-5), assessed in terms of the SNA approach. When deriving the demand impact, changes in the balance should be corrected for the revenues redirected into private sector pension funds in the wake of the pension reform. While increasing the deficit, this does not expand aggregate demand. In addition, the assessment of the demand impact can also take account of movements in real interest rates and changes in the operational deficit (see line 20 of Table IV-5). The favourable impact of cyclical conditions, automatically created by rising tax receipts, can also be removed from the resulting demand impact. The cyclically adjusted indicator determined in this manner (see line 22 of Table IV-5) represents the demand impact of fiscal policy.

There was a reversal in the demand impact of general government in 1999. This reversal might appear even more conspicuous on a quarterly basis, but this can be

⁴ The categories on changes in inventories and inventory investment on the use side of GDP differ in content in several respects. The analysis of the changes in inventory levels is based on detailed quarterly statistics published by the Central Statistical Office on manufacturing enterprises employing more than 50 people. By contrast, inventory investment, as an item of GDP, also comprises data on other sectors of the economy as well as on small organisations. Agricultural inventories, for instance, make a significant contribution. In the GDP balance, in addition to actual changes in inventories, the line on inventory investment and other non-specified use also includes the statistical discrepancy between the product and use side - an internationally approved and applied approach. This statistical error is usually more pronounced in the preliminary data, but is also present in the final figures.

Table IV-5 Deficit of general government
(As a percentage of GDP)

	Per cent			
	1997 Actual	1998 Actual*	1999 Planned	1999 Estimate
1 Balance of central budget, net of privatisation	-4.0	-3.7	-3.4	-2.9
2 Primary balance (net of NBH)	4.0	2.9	2.6	3.6
3 Interest balance	-7.7	-7.0	-6.4	-6.6
4 Balance of NBH allocation and payment	-0.3	0.4	0.4	0.2
5 Balance of extra-budgetary funds, net of privatisation	0.1	0.1	-0.1	-0.3
6 Social security balance, net of privatisation **	-0.7	-0.9	-0.8	-1.1
7 Balance of local governments net of privatisation	-0.3	-0.3	-0.2	0.0
8 Primary balance of local government	-0.6	-0.5	0.0	-0.2
9 General government balance, net of privatisation	-4.9	-4.8	-4.5	-4.3
10 Of which: primary balance	2.9	1.6	1.6	1.9
11 General government deficit on accrual basis	-5.3	-4.6	-4.5	-4.6
12 Primary balance on accrual basis ***	2.9	1.9	1.6	1.7
13 Deficit corrected for capital transactions	-0.7	-0.8	-0.2	-0.1
14 Deficit of State Privatisation and Holding Company	-0.9	-0.7	-0.5	-0.8
15 SNA financing requirement (15=11+13+14)	-6.9	-6.1	-5.1	-5.5
16 SNA primary balance (16=12+13+14)	1.3	0.5	1.0	0.8
17 Impact of pension reform (revenue loss)	0.0	0.3	0.6	0.5
18 Demand impact of primary balance (changes in 16 + changes in 17)	1.6	0.5	-0.8	-0.5
19 Net real interest expenditure	3.9	3.6	3.5	3.6
20 Demand impact of operational deficit (changes in 19 + 18)	1.7	0.2	-0.9	-0.5
21 Estimated impact of business cycle	0.3	0.5	0.5	0.2
22 Cyclically adjusted demand impact of operational deficit (20 + 21)	2.0	0.7	-0.4	-0.3

* Figures for late 1998 exclude the effect of the HUF 132 billion and HUF 50 billion sums transferred to Postabank and the State Privatisation and Holding Company.

** In contrast to official statistics, financial asset sales were not taken into account among revenues, which makes the deficit higher than the official figure by the same amount.

*** Based partially on accrual principles, which, in compliance with SNA rules, mean the separation over time of concession receipts and similarly accrual-based inclusion of VAT receipts.

Box IV-1 Accrual-based general government balance

Since the category of accrual-based deficit was first introduced in the Bank's 1996 Report, the official cash flow-based deficit has been regularly corrected for accrual-based interest rates. Since the compilation of the September 1999 issue of the *Quarterly Report on Inflation*, corrections are also applied for certain items of the primary balance. This is partly because of the need to *apply the accrual concept to VAT*, in response to the occasional significant discrepancy arising between accrual-based and cash flow-based VAT figures, where even the plus or minus sign of the discrepancy shows volatility. This is because the timing of the VAT refunds may vary within legally set limits. Refunds have a roughly similar weight as the net VAT receipts, in other words, approximately half of gross receipts will be refunded. In recent years, the discrepancy between accrual-based figures (which reflect underlying processes more closely) and cash-flow VAT figures have been fluctuating between -0.1% and +0.3% of GDP, depending on whether refunding is slower or faster than usual at year-end. This phenomena was noted in the Bank's 1996 and 1997 annual reports.

The other problem lies in the statistical accounting of *lump-sum concession payments*. Receipts from concessions amounted to HUF 35.3 billion in 1999, with substantial further payments projected for 2000. In terms of SNA methodology, such concession fees should be accounted for in a similar manner to leases, where the use of the accrual concept is required. Accordingly, the accrual-based rent should be separated off for the entire period of the lease (concession), in other words, the deficit should be improved each year by the sum allocated to it, regardless of the timing of actual payments. Thus, it is not correct to regard lump-sum concession fees as privatisation receipts and fully deduct them from the receipts. This is because privatisation means selling off financial assets (shares) for good, whereas concession only implies the transfer of a right for a limited duration, on the expiry of which the right reverts to the state. In principle, there would not be any difficulty so long as the concession fee were paid on an annual basis in accordance with the accrual concept. However, lump-sum payments made in advance or in arrears constitute credit extended either by the party granting the concession or the recipient, and credit transactions should be removed from the general government deficit.

Table IV-6 Changes in the real value of VAT
(Percentage change on a year earlier)

	Per cent									
	1998					1999				
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Domestic VAT revenues	4.8	4.2	3.0	-4.8	1.1	1.1	6.6	9.1	8.7	6.5
Import VAT revenues*	15.5	18.7	16.7	8.8	14.3	-0.2	-1.4	-1.1	11.7	2.7
VAT refund**	7.5	8.4	11.9	10.7	9.6	8.9	3.2	-0.7	3.3	3.6
Net VAT revenues	11.8	13.8	7.3	-5.2	5.8	-8.6	1.9	8.4	17.0	5.4

* Adjusted for customs surety.

** Based on estimated accrual-based settlement.

rather misleading, because the timing of fiscal developments over the year differs significantly from 1998: a comparison for early in the year conveys a much worse picture than reality, while a comparison for late in the year presents a better one than reality. In order to provide financial markets with accurate information, it is essential to give a description of some of the factors⁵ underlying the divergence between 1998 and 1999 in terms of the timing of fiscal developments:

- The faster-than-expected decline of inflation and slower economic growth over the first half of 1999 triggered a deterioration in the general government balance due to a fall in projected tax revenues (e.g. VAT). To curtail the deficit, the government promptly implemented a 1.9% freeze on a wide range of expenditures. Simultaneously with the effects of these savings amounting to approximately 0.4% of GDP coming into play, tax revenues started to increase as well.
- The time-table for annual agricultural subsidies also underwent significant changes. While 1999 Q1 and Q4 accounted for 37% and 10% of annual spending, respectively, the corresponding ratios for the same quarters of 1998 were one-sixth and one-third respectively.
- The timing of pension payments was balanced over 1999, by contrast with the trend seen in previ-

⁵ For a detailed description, refer to the 1999 issues of the *Quarterly Report on Inflation*.

⁶ Of the past few years, 1997 was the only other year characterised by the same tendency.

⁷ Around 3.5% of the considerable Q3 drop in real terms is accounted for by the impact of the appreciation of the real exchange rate relative to the base period on the accounting base of the VAT revenues from imports.

⁸ As of 1999, the collection of contributions became the responsibility of the Tax and Financial Control Administration. Although conducive to efficiency over the long term, this resulted in a slowdown in collections of outstanding payments, as the first six months was taken up by sorting out debts.

⁹ The freeze largely affected 48% of primary expenditures, leaving household transfers (pensions, family allowances) and open-end benefits unaffected. Furthermore, local government spending was affected only indirectly, i.e. proportionately to central support (personal income tax transfers).

ous years.⁶ This considerably limits sub-annual comparability with the previous year, as a retroactive rise took place in the third quarter of 1998 (while the unpaid rise had a relatively favourable impact on the deficit during the first half of 1998, the rise in Q3 worsened it to a large measure.)

Table IV-6 shows quarterly changes in the real values of the three components determining net VAT receipts.

VAT refunding continued at a high rate during Q1, similar to the previous year, but then there were signs of steady moderation in subsequent quarters. At the same time, receipts of VAT levied on domestic goods and services gradually increased compared with the markedly low levels seen in late 1998 and early 1999. The positive impact of these two factors was somewhat dampened by the drop⁷ in VAT revenues on imports over Q1-Q3. However, this unfavourable trend seemed to turn around in the final quarter.

For the year as a whole personal income tax revenues expanded at a rate hardly exceeding the 7% growth in real wages, implying a very low rise in the tax burden. Preliminary data indicate that receipts from social security contributions fell by 3% in real terms as a result of two contradictory influences. On the one hand, the 7% increase in real wages pushed up revenues, while on the other hand, the revenue-decreasing effect of the pension reform and the reduction of social security rates in 1999, along with the temporary interruption in the collection of payments outstanding,⁸ put much stronger downward pressure on overall receipts in real terms.

Public spending in real terms had been projected on the assumption of an average annual inflation rate of 10.5%. As the actual rate came in 0.5% below the projection, earmarked expenditures, *ceteris paribus*, would have increased by the same percentage in real terms. However, in addition to slower inflation, tax revenues were also curtailed by sluggish economic growth, which would have further increased the deficit, if spending had not been curbed by a 1.9% freeze affecting 40% of government expenditures.⁹ The freeze was mainly targeted at gross public and benefits-in-kind spending, which

continued to fall in real terms throughout the year, resulting in a higher-than-projected 3% layoff rate, that is, permanent savings. In addition to this, the decline in the labour-related burden resulted in savings in public spending as well. Allowing for the fact that the freeze only had an indirect, restricted impact,¹⁰ overall household transfers basically did not exceed the projected level in real terms. Expansion slowed in Q3, causing the annual growth rate to fall significantly below the same period a year earlier (the reason for the fluctuations in the growth rate during the year, notably the difference in the timing of pension payments, was noted above).

The fact that there are only estimates available on the 1999 budget for the local government level as a whole, due to the delay in the publication of aggregate data on local finances, introduces a degree of uncertainty into the analysis of general government data. According to currently available information, local tax re-

ceipts rose at a higher-than-projected rate, up by 36% on a year earlier. Consequently, the rise in tax revenues as a proportion of GDP offset the effect of the cut in funds from the budget and the social security administration. Given the lack of aggregate data on expenditures, the sub-annual data only allow estimates to be compiled on changes in current expenses, the more volatile investment spending and the resulting deficit. Accordingly, the consolidated expenditures (that is, spending directed outside general government) of local governments accounted for 11.2% of GDP in 1997 and 1998, and are estimated to have dropped to 10.7% in 1999. Thus, the primary deficit of local governments, amounting to 0.5% of GDP in the previous year, fell to 0.2%. This also implies that apart from the noted restrictive impact of local governments on demand, the other sub-sectors of general government had a neutral effect on the whole (*see Table IV-7*).

Table IV-7 Changes in selected public expenditures* in real terms**
(Percentage change on a year earlier)

	Per cent							
	1998				1999			
	Q1	H1	Q1-Q3	Year	Q1	H1	Q1-Q3	Preliminary
Wage and contribution spending	1.5	-0.5	3.8	0.7	-3.2	-0.4	-2.0	-3.7
Purchase of goods and services	-2.2	-8.4	-2.7	1.1	-0.5	-1.8	-2.4	3.6
Consumer price subsidies	3.9	1.3	4.0	3.5	-6.9	-6.9	-8.7	-8.1
Gross public consumption	0.5	-3.2	1.4	1.2	-4.1	-3.2	-4.2	-3.3
Pensions (including disability benefits)	4.7	5.4	8.4	9.2	6.9	6.9	4.3	4.1
Sick-pay	-4.9	-4.4	-2.0	0.1	1.5	1.7	1.4	2.4
Social benefits (central budget)	-0.8	-1.4	-2.3	-2.8	-15.9	-1.1	-2.6	0.0
Social benefits (local governments)	26.0	28.9	30.2	26.1	16.1	-0.2	-2.4	-2.9
Household transfers	4.1	4.8	6.7	7.0	2.1	4.5	2.2	2.7
Investment (central budget)	-4.5	12.6	0.7	-12.4	-10.4	-12.4	-3.8	6.1
Investment (local governments)	35.1	70.9	9.7	10.7	-8.0	-19.2	-9.2	7.6
Gross investment expenditure	33.5	40.2	5.7	-1.0	-9.0	-16.3	-6.9	6.6

* Source: Public sector statistics, therefore the data differ from Central Statistical Office figures.

** Using the price indices for public consumption and investment.

Box IV-2 How worthwhile is it to study the contribution of the deficits of individual sub-sectors to the central budget deficit?

Apart from local governments, it is becoming increasingly difficult to analyse the deficits run up by the individual sub-sectors of general government. The group of extra-budgetary funds underwent major changes in both 1996 and 1999, with all but two of them being integrated into the central budget. As a result, it is possible to compare neither the budget nor the funds deficit series, given the significant changes in content. In the past, the social security administrations had greater autonomy and received only earmarked transfers from the budget. In spite of this apparent autonomy, on the whole the budget financed the rising deficit of the autonomous social security funds. To resolve this contradiction, major changes were introduced in the management and supervision of the funds as of 1998. The autonomous administration framework was wound up and management was transferred to the government. According to the law, the deficit of the social security funds is now managed by the central budget. It has become a matter of choice in what framework the deficit of general government (the budget, social security, extra-budgetary funds) is realised, as the size of non-earmarked transfers, which reduce the social security deficit and raise the budget deficit is not normative and may change from year to year.

¹⁰This was basically effected through tightening local government resources.

Aggregate data on the local government sub-sector appear to obscure the various problems arising in the management of local governments, which have different capabilities. In recent years, the range of functions to be fulfilled by local governments has expanded, while the role of the funds transferred by the budget and the social security administrations has declined, in accordance with the Government's program.¹¹ Nonetheless, the management and financing of local governments has not been subject to any landmark reform. For the sake of increasing the leeway of local governments and providing assistance for discharging their main duties, the Government program has also prescribed a review and narrowing of mandatory functions. This is due to the fact that some local governments are capable of discharging their duties over the long term by means of increasing their revenues from local taxes¹² or by more efficient operation,¹³ while others can only rely on temporary solutions.¹⁴ As such resources are gradually being exploited, the number of local governments in dire straits is certain to increase.¹⁵

3.1 Financing

As in previous years, general government financing is described by means of the operational deficit category, derived from the consolidated general government and the central bank balances. In previous years this opera-

Table IV-8 Operational deficit * and sources of its financing
(As a percentage of GDP)

	Per cent					
	1994	1995	1996	1997	1998	1999**
1 Operational benefit (2+3+4)	6.0	1.8	-0.5	1.0	1.7	1.9
2 Net receipts from raising money	-0.6	1.3	1.4	1.0	1.2	1.5
3 Forint-denominated financing	3.4	1.7	4.5	5.9	2.4	5.2
4 Forex-denominated financing	3.1	-1.2	-6.4	-5.9	-1.9	-4.8

* Compensation for the effect of inflation is not included in the interest entries and central bank contributions. The + sign indicates a deficit and the - sign indicates a surplus. This operational deficit is consistent with the accrual-based version of the GFS deficit net of privatisation.

** Preliminary figures.

¹¹ In 1997 local governments received 5.7% of GDP in the form of budgetary subsidies and Personal Income Tax transfers, and their health institutions received 2% of GDP. According to preliminary estimates on 1999, central subsidies amounted to 5.5% and Social Security transfer payments to 1.8%, while the former is projected at 5.1% and the latter at 1.7% in 2000.

¹² Portion of local taxes that qualify as long-term resources rose from 1.3% of GDP in 1997 to 1.7% in 1999.

¹³ Size of the local government administrative staff gradually declined (by 3% in 1999).

tional deficit was consistent with the GFS deficit calculated net of privatisation receipts, i.e. it was adjusted for inflation. As, however, this analysis is focused on the accrual-based deficit of GFS without privatisation, that is, the SNA-type deficit, the operational deficit is also defined according to these criteria.¹⁶ The conclusion regarding financing is that in 1999 financing enabled by raising money was above the average rate for the previous years. The strong trend towards forint-denominated financing continued, simultaneously with a considerable decline in forex-denominated financing (see Table IV-8). Owing to this shift, the 1999 level of forint-denominated financing approached the peak average for the period between 1996 and 1997.

3.2 Public debt

Gross public sector debt as a proportion of GDP contracted by 2.7% in 1999, falling below 60%. The 3.1-percentage-point drop in foreign currency debt as a share of GDP was due to the lower-than-GDP-deflator rate of devaluation of the forint (both at market and central parity exchange rates.¹⁷ Gross public debt rose by 1.4% of GDP as a result of the increase in the level of the Treasury Account compared with end-December of the previous year. General government's GFS-type primary surplus contributed to the shrinkage of gross public debt by 1.9% of GDP. In December 1998, the State Debt Management Agency transferred gas utility bonds worth HUF 50 billion to the State Privatisation and Holding Company. In contrast to international statistics, no consolidation took place across the government

¹⁴ Between 1997 and 1999, the share of one-off receipts, from, for instance, selling off real assets (property), fell gradually from 0.6% of GDP to 0.5%. Apparently in an attempt to cover current operation costs, investment remained subdued. This does not seem to be the answer over the long term, as the essential investment projects cannot be put on hold forever. A similarly short-term solution seems to be the running up of deficits, to be covered by the exceptional receipts from privatisation in 1996 and 1997.

¹⁵ In previous years, roughly 47.5% of all settlements were classified as suffering from unfavourable conditions and a high rate of unemployment. In terms of the new classification, effective of 2000, the proportion rose to 47.9%. Approximately 18% of the population live in such poor settlements, with 81.3% in the north of the Great Hungarian Plain, North-Hungary and the south of Transdanubia. The previous annual transfer payments of HUF 3.6 billion granted by the Budget as a subsidy to these settlements is projected to increase by 42% over 2000.

¹⁶ Technically this means that the real interest rate (line 19 of Table IV-5) is deducted not from the GFS primary balance net of privatisation, but from its accrual-based version (line 12).

¹⁷ This means that as a result of the real appreciation of the forint in 1999, the foreign currency debt in forint terms rose to a lesser extent than the nominal GDP in the denominator as a result of the change in the price index.

Table IV-9 Gross debt of general government
(Year-end figures)

	HUF billions				
	1995	1996	1997	1998	1999
	Actual				Preliminary
1 a) NBH credit financing the deficit	422.7	377.7	275.0	231.3	187.6
b) Government bonds financing the deficit	574.1	726.0	1,024.0	1,447.4	1,949.5
c) Treasury bills	417.0	684.5	902.1	1,034.9	1,234.1
1 Debt financing the deficit as a percentage of GDP	1,413.8	1,788.2	2,201.1	2,713.6	3,371.2
	25.2	25.9	25.8	26.9	28.9
2 Other credit	346.1	253.7	227.7	203.7	192.6
Of which: NBH (SDI)	292.1	233.3	227.5	203.6	174.8
3 Other government bonds	630.4	1,037.3	740.0	836.2	805.6
4 Total domestic debt (net of devaluation or domestic forex credit) as a percentage of GDP	2,390.3	3,079.2	3,168.8	3,753.5	4,369.4
	42.6	44.7	37.1	37.2	37.4
5 Forint devaluation and domestic foreign exchange debt at the NBH as a percentage of GDP	2,023.3	1,563.3	1,886.7	2,118.2	1,536.6
	36.0	22.7	22.1	21.0	13.2
6 Total domestic debt (4+5) as a percentage of GDP	4,413.6	4,642.5	5,055.5	5,871.7	5,906.0
	78.6	67.3	59.2	58.2	50.6
7 External debt of the budget ** as a percentage of GDP	319.9	289.9	315.3	294.1	950.5
	5.7	4.2	3.7	2.9	8.1
8 Total debt (6+7) as a percentage of GDP	4,733.5	4,932.4	5,370.8	6,165.8	6,856.5
	84.3	71.5	62.9	61.1	58.8
9 Total debt of sub-sector of general government***	124.6	73.9	69.5	95.7	78.9
10 Gross public debt (8+9) as a percentage of GDP	4,858.1	5,006.3	5,440.3	6,261.5	6,935.4
	86.5	72.6	63.7	62.1	59.4
11 Gross public debt at constant prices ****	6,890.8	5,927.5	5,440.3	5,676.8	5,737.7

* According to the preliminary balance of the National Bank of Hungary.

** According to preliminary data by the State Debt Management Agency.

*** According to the Bank's financial statistics.

**** At 1997 price levels.

sub-sectors – hence, this portfolio was also accounted for as debt in 1998 and 1999 (see Table IV-9).

In late 1999, the portion of the portfolio that could be regarded as debt at money market rates amounted to some HUF 3,920 billion of gross domestic forint-denominated public debt. By the end of the year the fixed rate portion amounted to 58.3% of T-bonds (compared with 52.5% in 1998), which reflects a shift in the structure of Hungarian public debt in 1999 towards the debt structure prevalent in countries with advanced government security markets.

Although foreign borrowing in 1999 was undertaken directly by the Hungarian Government, in view of the fact that until the end of 1997 foreign loans were organised through the National Bank of Hungary, one must analyse consolidated public sector debt – corrected for the financial relationship between the Bank and the Government – to obtain information on the final structure of financing the government deficit, the debt burden or debt servicing.

This allows one to follow the role of the final financing sources, the development of domestic public debt (exclusive of the NBH), the roles played by debt denominated in foreign currency and the monetary base in financing the government deficit.

4 External demand

On the whole, external economic activity was less buoyant in 1999 than in 1998. Economic growth in the euro area, Hungary's main export market, lost momentum and activity clearly faltered in the CEFTA countries as well. Only Russia showed signs of a recovery following the low point in 1998. Sub-annual movements in the foreign business cycle showed a different pattern than in 1998. In 1998, deterioration in external demand was pronounced in the second half of the year, whereas in 1999 adverse developments were more prevalent over the first part of the year and were then replaced by definite signs of acceleration over the second half. In the course of 1999, import demand showed an upward trend, and consumer confidence indices rose starting from the middle of the year, somewhat later than business confidence indices, which were improving as early as the second quarter. Recession in the CEFTA countries, bottoming out as a result of the Russian crisis and internal structural problems in the first half of 1999, gave way to stronger activity in the second half for most members in the region. Growth was also relatively robust in CIS countries in the second half, thanks to rising oil and commodity prices.

Table IV-10 Exports and imports according to GDP accounts and product trade data
(Volume index, same period a year earlier = 100)

	1998/97 year	1999 Q1	1999 Q2	1999 Q3	1999 Q4	1999/98 year	Per cent
Total exports	117.1	110.8	108.8	114.9	118.9	113.5	
Of which: product trade	122.5	113.5	112.2	118.0	119.7	116.0	
Total imports	123.7	113.7	111.2	111.0	116.5	113.1	
Of which: product trade	125.9	113.1	111.7	113.2	118.7	114.3	

Chart IV-9 Trade balance according to customs statistics, in euro terms

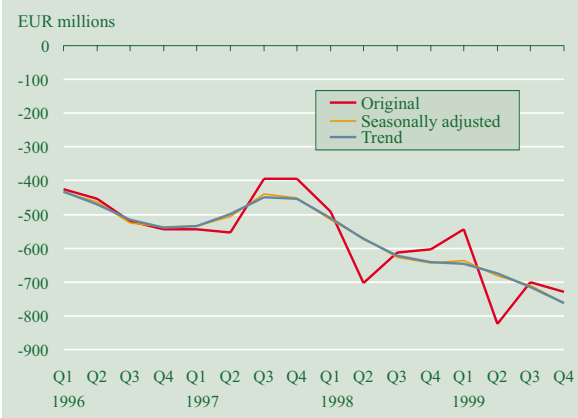
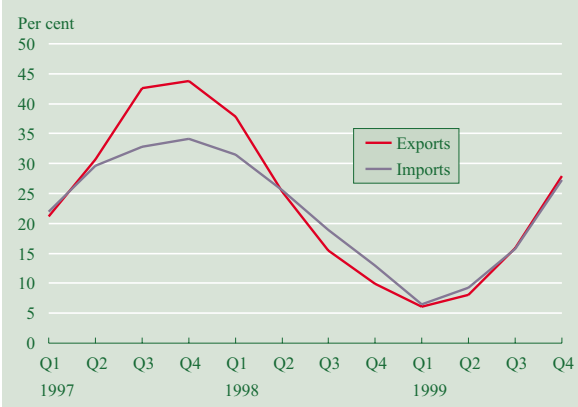


Chart IV-10 Export and import trends based on customs statistics
(Annualised quarterly growth rates, in euro terms)



The slowdown in the rate of expansion of Hungarian exports and imports relative to 1998 is associated with the aforementioned changes in external business conditions. On the other hand, the base effect also contributed to this decline: a key factor in the exceptional growth in 1998 was the strong expansion of export capacities, which could not be expected to continue at such an intense rate in 1999.

Export volumes of goods and services rose at a rate of 13.5%, down from 17.1% in 1998, while the drop in the growth rate of imports was over 10 percentage points, down to 13.1% (see Table IV-10). The largest correction affected trade in goods and services, with export growth down from 22.5% to 16%, and import growth from 25.9% to 14.3%. Hence, exports slowed less than imports, which caused the gap between exports and imports seen in the course of 1998 to rise from -3.4 percentage points to +1.7 percentage points in 1999. In addition to the effect of the upswing in exports over the second six months of the year, based on better external cyclical conditions, this was also essentially due to the self-correction of the Hungarian economy. The weaker outlook for growth, due to the adverse external conditions, caused investment growth in the private sector to decline considerably relative to 1998, resulting in a better-than-expected import growth rate.¹⁸ Another factor behind this was the Government's postponement of some planned projects, which held the rate of investment to the level of the previous year. Despite the faster rise in the growth of export volumes relative to imports, worsening terms of trade over the year caused exports and imports to rise practically at the same rate in value terms (see Chart IV-10).¹⁹

According to customs statistics,²⁰ the value of exports in 1999 was EUR 23.5 billion, while imports amounted to EUR 26.3 billion, up by 14.5% and 14.7%, respectively, on a year earlier. There was a deficit of EUR 2.8 billion on the balance of trade, which worsened by nearly EUR 400 million relative to the previous year (see Chart IV-9).

The rise in the deficit was primarily due to the deterioration in the balance of goods-for-processing trade, with other foreign trade items remaining stable or even improving slightly towards the end of the year. Hence, the balance-of-payments trade balance remained unchanged during 1999.²¹

¹⁸ Simultaneously, private consumption growth gathered pace, but given that investment relies more heavily on imports than consumption, the net effect reflected a slowdown in imports.

¹⁹ Whereas at the start of the year import growth was some 0.5 of a percentage point faster than export growth, the latter was around half a percentage point faster than the former in the second.

²⁰ In the following paragraphs, movements in the balance of trade are being analysed in terms of data derived from customs statistics.

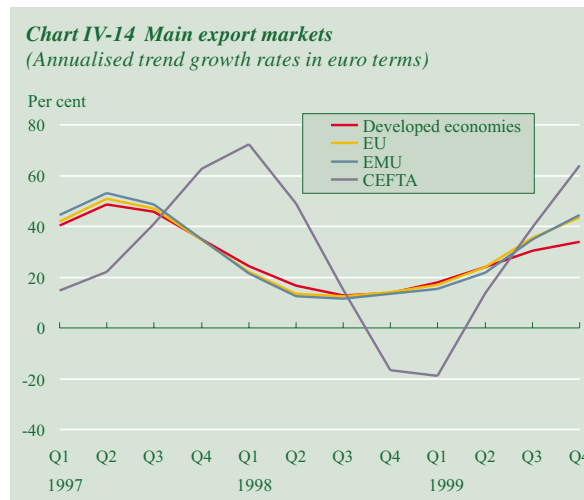
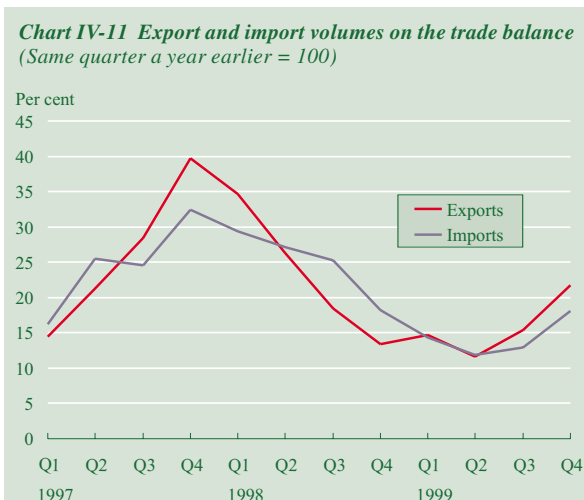
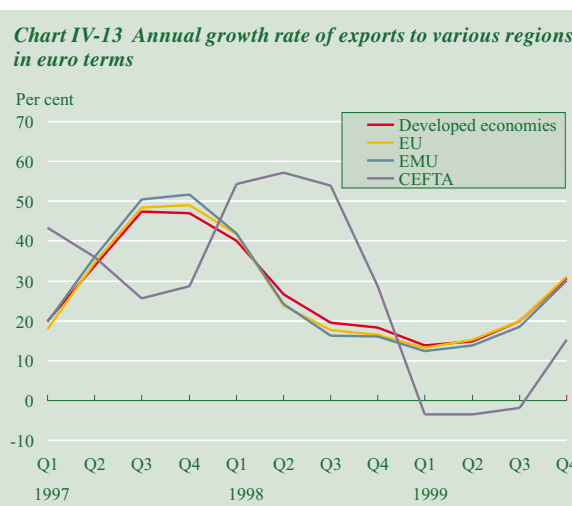
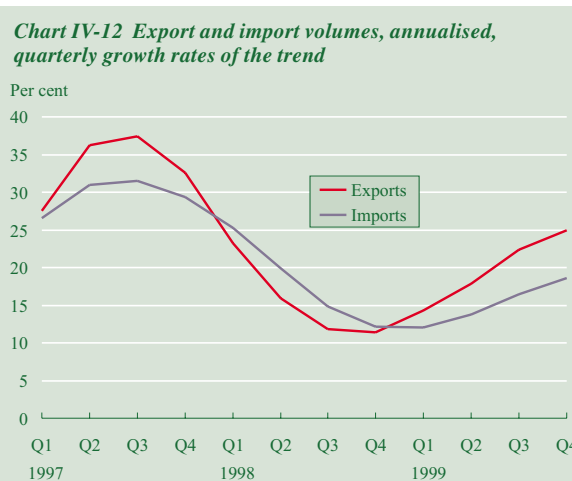
²¹ Apart from the statistical discrepancy arising from the use of accrual-based and cash-flow principles, the difference between the balance of payments trade balance and the customs statistics-based trade balance is essentially due to active and passive imports of goods-for-processing, as well as imports of the materials involved.

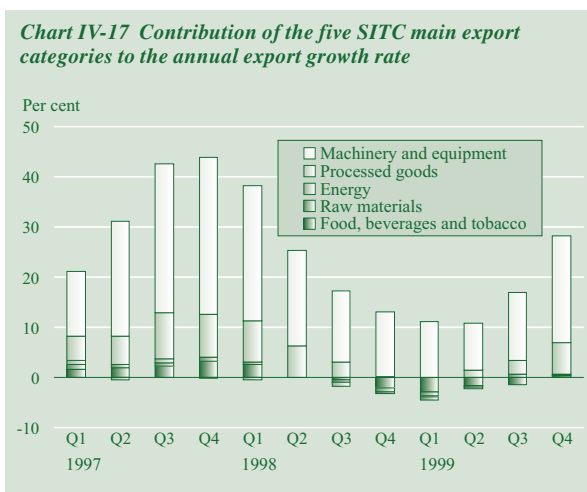
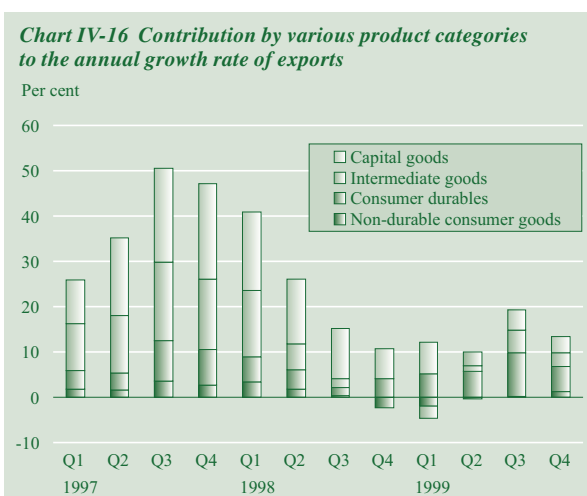
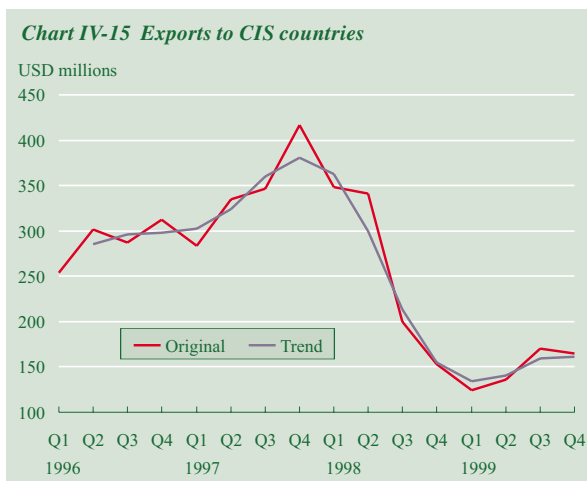
The annual growth rate of export volumes gathered pace, up from 14.7% early in the year to 21.7% in the fourth quarter, while imports expanded at a somewhat slower pace, up from 14.3% to 18.1% (see Chart IV-11). Short-base indices reflect a much more pronounced pick-up in both exports and imports with the annualised growth rate of exports rising from 14.3% in Q1 to 24.9% in Q4, compared with an increase from 12.1% to 18.8% for imports (see Chart IV-12). This considerable divergence between short-base and long-base indices was due to the high levels of both exports and imports in the fourth quarter, exceptional even taking into account the usual effect of seasonality.

The difference between the growth rates for volume and value indices was broadly due to the deterioration in the terms of trade (by 1.6% for the year as a whole). In the first half of the year, this downturn affected manufactured goods, while in the second half of the year the cause lay more in the steady rise of energy import prices. Although for the year as a whole energy prices in forint terms were up only by 14%, the final quarter witnessed an annualised rise of 63%. For the year as a whole, energy price increases worsened the terms of trade by 0.8 percentage points. By contrast, the final quarter contributed to the annualised deterioration by 3.6 percentage points, that is, over 9 percentage points on the short base. The worsening in the terms of trade affecting manufactured goods had an annualised impact of a similar extent to that affecting energy, while sub-annual indices reflected a gradually improving trend.

The country structure of exports reflects the level of activity of Hungary's main trading partners (see Chart IV-13). Exports to the advanced economies continued to expand at a relatively rapid pace even at the beginning of 1999, with the annualised growth rate climbing steadily higher over the year. The above-average growth rate of exports to developed countries can be attributed to the assistance provided by foreign direct investment, the

driving force behind exports, in the production of high-quality goods. Consequently, cyclically adjusted trend growth was the fastest with respect to these countries, in parallel with the growing Hungarian integration into Western Europe (see Chart IV-14).





Annualised indices convey a much more mixed message about the growth of exports to areas outside the advanced economies, with special regard to CEFTA and

CIS countries. This is partly due to the severe recession that hit these regions and partly to the fact that annualised indices shifted the time of the turning point with respect to both country groups.

The drop in exports to CEFTA countries over the first three quarters reflected by the annualised indices was replaced by a spectacular surge in the fourth quarter. At the same time, short-base indices suggest that exports to these areas only contracted during the first quarter, and turned around as early as the second quarter.

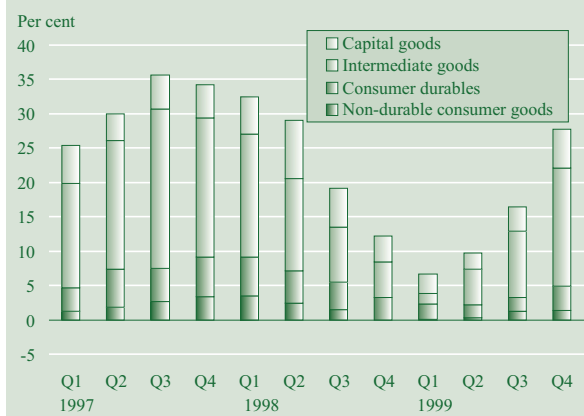
Annualised indices indicate that over the first three quarters of the year exports to CIS countries²² fell markedly, and then experienced an upsurge in the final quarter (see Chart IV-15). Movements in the level of exports indicate that the crisis-induced decline reached its lowest point in 1999 Q1, with exports to the region remaining basically flat for the rest of the year.

The contribution of the various products to export growth in the course of 1999 shows that durables continued to top the list, with investment and intermediate goods also up to a similar extent (see Chart IV-16). Clearly, growth was fuelled by machinery and equipment, as well as component part exports. The 5-category SITC breakdown of exports sheds further light on the importance of machinery and equipment as the driving force of export growth in 1999 (see Chart IV-17). The relatively stable growth rate seen in the first quarter gathered pace in the latter half of the year, bringing the contribution of the mechanical engineering sector to exports back to levels seen in late 1997 and early 1998. Even against the background of weaker external activity at the beginning of the year, product exports in this category expanded rapidly and gained further momentum in the second half of the year. Thus, the growth rate for such products showed a less marked response to movements in the external cyclical position, mainly on account of the briskly expanding sales by Hungarian companies in foreign ownership. As a result of rapid integration, this product group showed much faster trend growth than other export categories, and it was the trend rather than the cyclical effect that was dominant.

Imports picked up simultaneously with the improvement in external business conditions, but nonetheless lagged behind export growth in volume terms. The breakdown of imports by use shows that the strongest contribution to annual import growth was made by intermediate goods, both in terms of percentage and change, with investment goods taking second place. By comparison, the contribution of and growth in consumer goods, with particular regard to non-durables, was of minor sig-

²² In contrast to the other areas, exports to CIS countries are analysed not in dollar but in euro terms, with the former currency being their main pricing medium. Given the euro's weakening trend, an analysis in euro terms would enable a slight pick-up instead of the flat level to be recorded, which explains part – but only a negligible part – of the growth in exports.

Chart IV-18 Contribution of various product categories to the annual import growth rate



nificance (see Chart IV-18). Thus, the pick-up in imports was due first and foremost to stronger production and export growth rather than to an upsurge in domestic consumption.

The rise in intermediate product and investment goods imports primarily affected the categories of machinery and equipment, as well as manufactured goods (see Chart IV-19). Quarterly indices also clearly indicate that energy accounted for a steadily increasing portion of product imports (see Chart IV-20).

In the first half of 1999 trade in services²³ saw the negative tendencies of the preceding period linger on, although at a slowing rate. The second half, however, marked a turning point, with activity picking up both in the area of travel and other services (see Chart IV-21). Adverse cyclical effects and the war in Yugoslavia early in the year put downward pressure on travel. The flat period that followed was replaced towards the year-end by signs of a recovery, together with a pick-up in the trend of other services as well.

The EUR 1.3 billion surplus run up in 1999 on the services balance in the balance of payments was EUR 280 million less than the approximately EUR 1.6 billion for 1998 (the drop in the travel balance due to the war in Yugoslavia accounted for only EUR 60 million). The deterioration in the service balance was due to the fact that the slight increases in credits were overcompen-

Chart IV-19 Contribution of the main five SITC import categories to the annual import growth rate

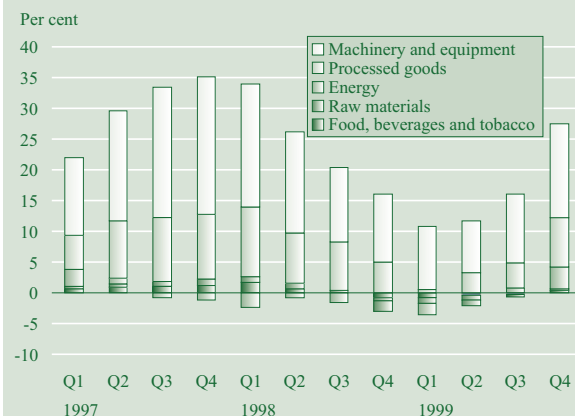


Chart IV-20 Contribution of the main five SITC import categories to the annualised quarterly trend import growth

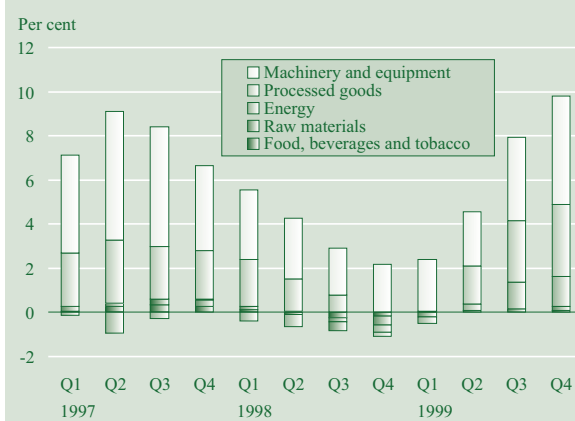
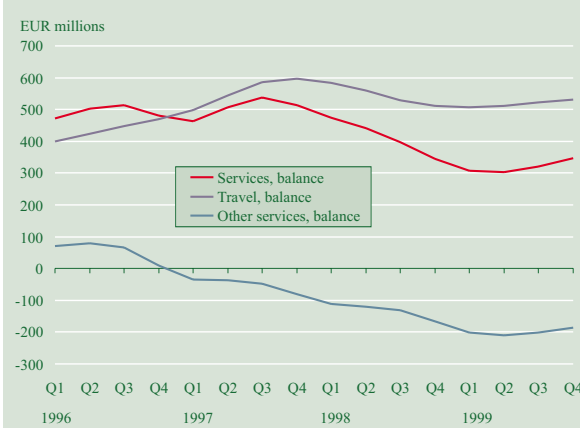


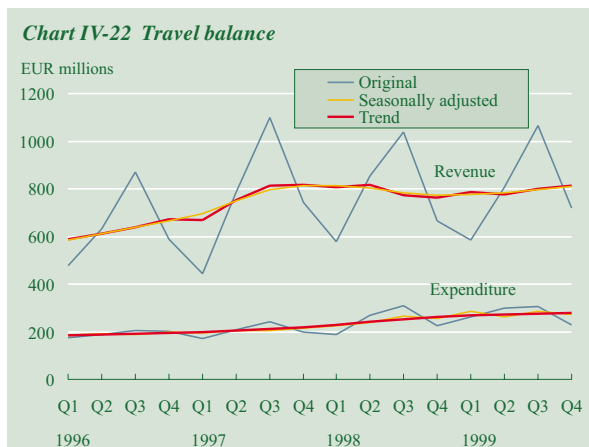
Chart IV-21 Services balance, trend



²³ This analysis is based on balance-of-payments statistics.

²⁴ Travel entries were modified going back to 1995. In terms of the change, transactions on household foreign exchange accounts were reclassified from current transfers to travel. Furthermore, while the travel balance did not rise in 1998 and 1999, the credit and debit entries did, as a result of the review of the accounting method of foreign currency purchases from Hungarian residents by non-bank foreign currency trading institutions. As in addition to travel-related items, household foreign currency accounts may also incorporate items related to other services, trade transactions and incomes, it seems justified to examine changes in travel without the balance of households' foreign exchange accounts.

sated by the rise in debits. Credits for 1999 were significantly affected by a methodology change, according to which the surplus on households' foreign currency accounts, retroactively recorded as of December 1999 among travel items on the balance of payments statistics,²⁴ fell short of the level for the previous year. Without this change in methodology, both the credit entry to



travel and the balance would have been EUR 220 million higher.

Thus, the slight worsening since end-1997 on the travel balance was partly due to the decline in the balance of transactions on households' foreign currency ac-

counts reclassified under the credit item to travel. Furthermore, the impact of the recent economic and political crises in Eastern Europe (such as the Russian financial crisis and the latest bout of fighting in the Yugoslav region) was another factor. The recovery in the second half of the year was primarily associated with increases in receipts, but there are yet not enough data available to confirm the starting point of long-term improvement (changes in travel receipts and their dependence on external cyclical conditions are discussed in *Box IV-3*).

Due to the war in Yugoslavia, travel expenditures dropped off somewhat as well. The upward trend seen in the first quarter was broken over the second and third quarters. Worries related to the war made many people give up or put off their plans of travelling abroad, and special events (such as the solar eclipse) also encouraged people to stay home in Hungary. This is reflected in the 30% rise in domestic tourism. Nonetheless, the fourth quarter witnessed signs of another pick-up in expenditures (see *Chart IV-22*).

Box IV-3 Receipts from travel services

In 1997, there was a break and subsequent sharp fall in the above 10% trend annual growth of forex receipts from travel services, in euro terms, seen between 1995 and 1997, turning around again during 1999. Trend travel receipts assessed without the balance of foreign currency accounts displayed stronger improvement, meaning that the rise in travel receipts over the past year was countered by the deterioration in the balance of households' foreign currency accounts (see *Chart IV-23*).

Total receipts, amounting to EUR 3.2 billion, were 2% up on the previous year, equalling the growth rate for 1998, despite declining travel intentions in the wake of the Yugoslavian crisis and weaker activity in Hungary's main partners in terms of travels. Since one-third of the currency structure of the receipts is represented by US dollars, the improvement in value terms was partly due to major cross-rate changes, such as the weakening of the euro. The volume index designed to remove the effect of price and exchange rate changes showed a 3% drop in 1999.²⁵

Travel-related statistics indicate a decline in turnover at border and public accommodation establishments, in line with the significant slowdown in revenue growth.

The drop in the total number of arrivals from Hungary's main trading partners was primarily due to declining numbers arriving from Croatia, Ukraine and

Chart IV-23 Trend of travel receipts

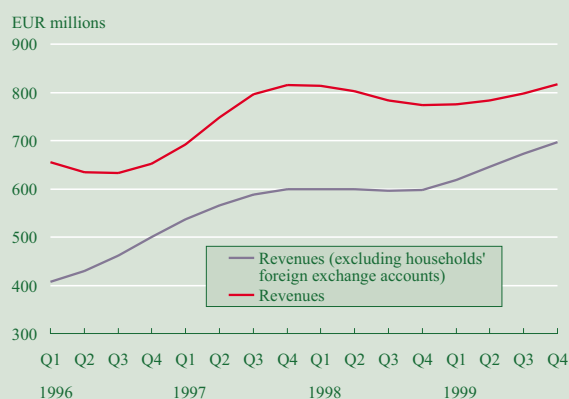


Table IV-11 Receipts from travel services

	Receipts	Change	Value index	Volume index
	EUR millions		Per cent	
1994*	1,826.0			
1995	2,038.5	212.5	111.6	
1996	2,570.8	532.4	126.1	120.0
1997	3,070.3	499.5	119.4	111.0
1998	3,133.8	63.5	102.1	102.0
1999	3,196.9	63.1	102.0	97.0

* Receipts for 1994 are estimates adjusted for the balance of currency transactions recorded on households' foreign exchange accounts.

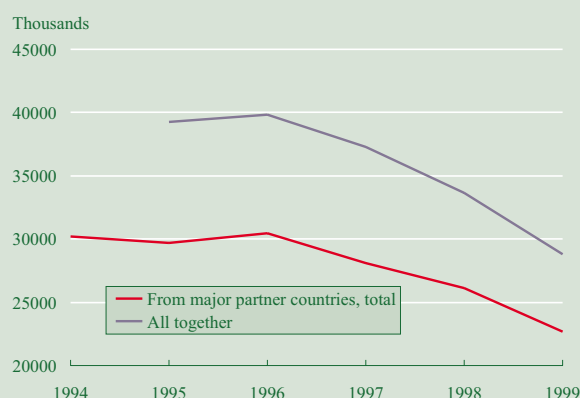
²⁵ The volume index was obtained from a travel price index constructed by means of applying weights to the consumer basket of the Hungarian consumer price index. This was done by applying zero weights to goods and services not related to travel (such as electricity and other energy sources). As the computed price index does not correspond fully to the product structure of travel, the volume index gives only an approximation of the receipt changes in volume terms.

Russia since 1995, which had an exceptionally strong effect in 1997 and 1998.²⁶ As a result of an overall drop in the number of visitors from all main trading partners of Hungary in 1999, the total of arrivals was down by 14% on a year earlier (see Chart IV-24).

Turnover in accommodation services for non-Hungarian residents (see Chart IV-25) decreased somewhat and has been on a downward trend since 1997. The number of tourist nights fell strongly and steadily with respect to Austria, Romania, Ukraine and Russia, and, from 1998, all countries that used to be major contributors to turnover at accommodation establishments. In 1999, the number of tourist nights fell by 3% on a year earlier. Although with a minor weight within the total turnover, the number of tourist nights increased every year in respect of Japan and Slovakia and since 1998 in respect of the Czech Republic and Croatia as well. Within international turnover at public accommodation establishments there was a comparable fall in the number of nights spent in hotels. International turnover at accommodation establishments rose by 7% at current prices, lagging behind average service price increases.

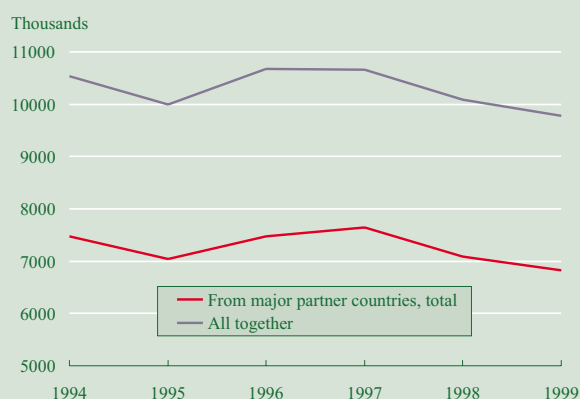
The system of weights applied to international travel items, which comprises all the aforementioned changes in terms of both the number of arrivals to Hungary and the number of tourist nights at public accommodation establishments, showed no significant rearrangement among Hungary's main partners in international travel between 1994 and 1999. Hence, it was neighbouring countries that accounted for most arrivals, with Germany and Austria providing the bulk of turnover at accommodation establishments. The indicator for international travel activity constructed from the GDP volume indices of partner countries on the basis of the weight system shows that since 1997 the slowdown in GDP growth in these countries put downward pressure on the growth of receipts from international travel. Total travel receipts did not seem to follow cyclical conditions, sometimes even moving in the opposite direction in respect of non-Eastern European countries, which account for 85% of the number of tourist nights in Hungary, 40% of the number of arrivals, and thus over 60% of total tourism. Despite the smaller weight of the region, changes in the incomes of Eastern European countries were more closely reflected by the changes in total travel receipts (see Chart IV-26.)

Chart IV-24 Number of arrivals



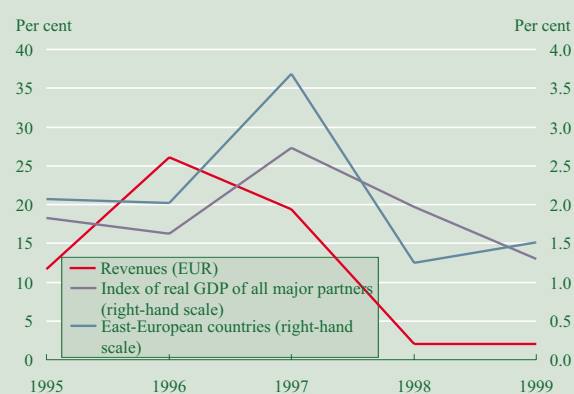
Source: Central Statistical Office

Chart IV-25 Number of tourist nights



Source: Central Statistical Office

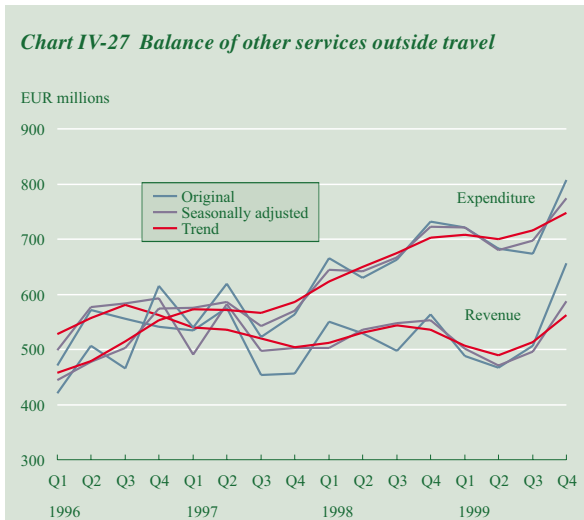
Chart IV-26 Per cent changes in the GDP volume index and travel receipts



In 1999, the deficit on the balance of other services trade, up by EUR 220 million on the previous year, rose to a smaller extent than in preceding years. The deterior-

ation was concentrated mostly on the first half of the year, with definite signs of a recovery emerging in the third, and especially in the fourth quarter.

²⁶ Main partners comprise Germany, Austria, Italy, the USA, Japan, Romania, the Czech Republic, Slovakia, Poland, Russia and Ukraine. The main partners category covers 70% and 80% in terms of the number of nights spent in paid accommodation and border crossings, respectively.



The third-quarter upturn in the trend of other services outside travel (see Chart IV-27) led in the fourth quarter

to a pick-up in the balances of nearly all service items compared with both 1998 Q4 and the seasonally adjusted figures for 1999. For the year as a whole, the deterioration was broadly focused in the area of transport and shipping services. The balance of construction services was EUR 90 million lower than in the previous year, owing to increased expenditures over the second, third and fourth quarters. The EUR 60 million drop in the credit side to goods transport could be attributed to the war in Yugoslavia and its consequences, causing a fall in revenues from transport fees and those earned by transport companies. Over the past few years, the deterioration in the balances of business, as well as technical and cultural services contributed to the increase in the deficit recorded on the service balance. The year 1999 witnessed a turning point in respect of these two items: there was no adverse movement in either the balance of business services, comprising insurance and financial services, or technical and cultural services.

V. Supply

The labour market

Changes in labour market composition in 1999 continued to follow the trend of the previous year. Employment expanded further, and at the year-end, after several years of decline, the number of employed people approached figures last seen in 1992–93. The average rate of unemployment sank to 7% for the year as a whole, although the rate of decline was significantly slower than earlier. This comes as no surprise since it was the unemployed groups with more favourable labour market potential that were first absorbed by the pick-up in labour demand since 1997. This has resulted in a rise in the proportion of groups with relatively disadvantageous labour market properties, which, in turn, has hampered a further decline in unemployment. As employment grew considerably faster than unemployment declined, the participation rate increased to over 53% for the year as a whole, marking a return to levels last seen in 1994 and 1995.

The factors underlying the improvement of labour market indicators also include demographic developments. The rise in the number and proportion of the most active young age groups pushes up the values for participation and employment rates, distorting the figures. According to Bank calculations, this accounts for at most one third of all changes in labour market indicators in 1999. Thus, there was clearly growth in the labour market, even if these demographic factors are not taken into account.

1.1 Employment

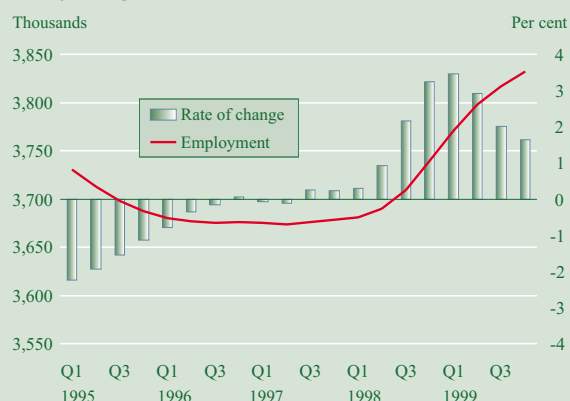
The household labour force survey of the Central Statistical Office shows that, considering the 1990s as a whole, the fastest growth in employment was observed in 1999. The number of employed people approached the figures for 1992 and 1993, the initial years surveyed (despite a simultaneous numerical decline in the 15–74 age group over the last several years). After the high rate in 1998, employment growth lost some momentum in 1999, but remained high even in the final quarter (see Chart V-1).

Structural changes in employment contain essential information from the perspective of monetary policy. As individual labour groups are not perfect substitutes for each other, cross-sectional data may be a useful source of information indicating relative labour market tightness. Thus, it is important to filter out the aforementioned distortion effects of changes in demographic composition from labour market indicators – as discussed at some length in the Bank's *Quarterly Report on Inflation* – and in general to track the behaviour of cross-sectional groups, in addition to averages.

As far as individual age groups are concerned, 1999 saw a sharp rise in employment in the 55–59 age group – presumably due to the rise in the retirement age. There was also a significant increase in the 25–29 and 40–54 age groups. In addition to the favourable demographic effects in the late nineties, another factor at work was the “genuine” improvement of labour force utilisation in Hungary.

Looking at the regional breakdown, despite rising employment rates in all seven statistical areas, the overall improvement has not caused these areas to converge, as the central and western areas of Hungary also experienced a sharp rise in employment, even though the rates

Chart V-1 Changes in the number of employed people and the rate of change *



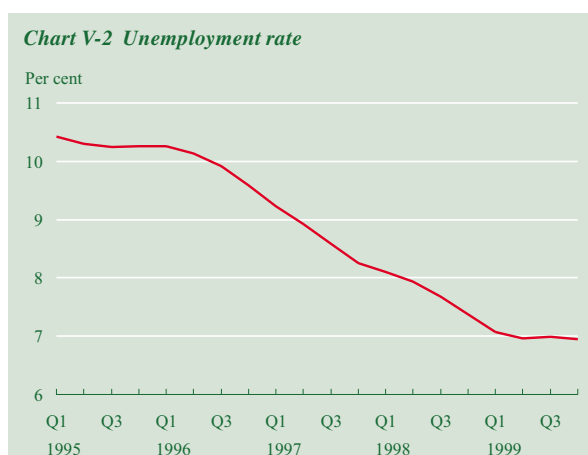
* The rate of change in the number of employed people is given in terms of quarter-on-quarter annualised indices calculated from the trend series based on seasonally adjusted data (right-hand scale).

in these areas have been better than the national average for a considerable period of time. This poses the threat of bottlenecks developing, since while high employment areas are running out of labour reserves, expansion has not shifted to the areas with lower labour force utilisation. Of the relatively disadvantageous areas, the Észak-Alföld region seems to be the only area catching up with the employment growth of the more advantageous areas.

According to the institutional employment statistics compiled by the Central Statistical Office on the basis of surveying businesses employing over five people, as well as budgetary and non-profit institutions, employment expanded at a considerable pace in 1999. It is of particular interest that the 0.8% aggregate rise in the number of employed people was the result of a clear-cut 2.3% contraction in the public sector and an identical expansion by the market sector. By 1999 Q4, the drop of over 4% in the public sector labour force relative to a year earlier affected all main areas, mostly with respect to manual labour. The rise in the number of employed people in the market sector was remarkable, especially in certain manufacturing sectors (mechanical engineering: 7.5%, metal processing: 4.2%), construction (5.5%) as well as certain market services, such as retail and repairs (12.0%), real estate activities and business activities (3.1%). In respect of white-collar labour, personnel numbers rose considerably in the fields of transport, storage, postal services and communication (3.3%). If the latter increase is related to the stronger activity and the sharp rise of wage indices measured for communication, this poses a threat of further tightening.

1.2 Unemployment

The household labour force survey of the Central Statistical Office shows that the rate of unemployment – computed according to a standardised international methodology – fell to under 7% in 1999. In addition to stronger labour market activity, the factors behind the nearly



one-percentage-point fall in the rate relative to 1998 include demographic changes and the effects of government regulation. The increase in the proportion of the 25–39 age group within total working age population accounts for about one-seventh of the decline in unemployment, while the remaining 0.7-percentage-point fall was due to “genuine” trends associated with the development of demand and supply. The demand-side factor is clearly the rise in employment intentions as a result of stronger business activity. On the supply side, the increase of the retirement age offers an explanation for the fact that the fall in unemployment took place simultaneously with a rising participation rate for the 55–59 age group.

In 1999, other labour market indicators of movements determining unemployment showed no changes compared to the preceding period. The seasonally adjusted value for the *registered rate of unemployment*, based on administrative data collected by public employment agencies, fluctuated around 9.7% in 1999. The reported *collective redundancies* and the number of registered vacancies increased relative to the preceding period, but this does not imply any change in labour demand or supply, being merely a sign of labour market volatility, given the robust rise in the number of employed people, i.e. the number of filled vacancies during the period in question.

The pace at which the unemployment rate is declining has slowed relative to the preceding years (*see Chart V-2*). This comes as no surprise given that increases in labour demand always appear to reduce unemployment first for people with better employment potential. Even though the aggregate data do not usually provide clear evidence, it seems likely that the recent robust expansion of employment took place simultaneously with a rise in the number of people with less attractive labour market qualities (e.g. unskilled workers and those from disadvantaged areas) within the overall group of unemployed people. In addition, the fall in unemployment is not caused by greater numbers *leaving*, but rather by smaller numbers *entering* the unemployed category. This implies that within the unemployed group, the share of people out of work for a short time and, therefore, more likely to return soon, is falling simultaneously with the rising proportion of people out of work for a longer period. This “deterioration” in the composition of the unemployed labour force may hamper, or even prevent, a further fall in unemployment.

1.3 Earnings growth

Wage data collected by the Central Statistical Office as part of institutional labour statistics indicate an increase of 16.1% in average gross earnings for 1999 as a whole, relative to the previous year. Taking inflation into ac-

count, this corresponds to *gross* real earnings growth of approximately 5.5%. Whole-economy average gross earnings growth is based on relatively higher public sector (19.2%) and lower private sector (14.8%) indices. According to the *wage inflation* indicator, which filters out the distorting effects on wage indices of the composition of employment, the annual whole-economy earnings growth average (15.9%) fell by 0.4 percentage points in 1999, relative to 1998. This can be attributed to a decline in wage inflation within the private sector (14.8%) and continuing high growth within the public sector (19.2%).

These figures may create the impression that, in contrast to falling inflation rates, public sector wage outflow was increasing rather than decreasing, in other words, the public sector did not accommodate in nominal terms to disinflation in 1999. However, the evaluation of the marginal year-on-year decrease in public sector and whole-economy earnings indices is distorted by the deferment of public sector payments received on an irregular basis from late 1998 until early 1999. The distortion is downwards for 1998 and upwards for 1999 in respect of both public sector and whole-economy earnings growth. Therefore, deferred payments should not have been accounted for 1999 but for 1998, as assuming a certain degree of forward-looking expectations, household consumption and savings choices are not exclusively shaped by the magnitude of actual earnings, but also by expectations of forthcoming amounts on an irregular basis (*see Table V-2*).

Therefore, earnings should not necessarily be accounted for the time of their technical receipt, but for the period when they have the greatest impact on demand. Aggregate earnings data are not suitable for making a correction for the deferment of payments received on an irregular basis, but the Bank's hypothetical calculations¹ indicate a significant effect: the adjusted public sector earnings index for 1999 as a whole is 2.1 percentage points lower than the original index. As nearly 30% of all employees work in the public sector, the earnings in-

dex for this group determines the whole-economy average to a significant degree. Accordingly, calculations based on the adjusted public sector index yield a whole-economy average wage index that is 0.6 percentage points lower (*see Table V-3*).

Within the private sector, the rate of *manufacturing* wage inflation continued to decline at a steady pace. This consisted of high wage growth in the second quarter (16%), largely on account of the jump in manual labour

Table V-1 Sectoral breakdown of wage inflation *
(Percentage changes on a year earlier)

	Per cent			
	1998	1999		
		H1	H2	Year
Agriculture, fishing	16.5	14.9	11.3	13.1
Mining	11.3	16.0	12.5	14.2
Manufacturing	17.8	15.4	14.6	15.0
Electricity, gas, heat and water supply	19.3	16.0	14.9	15.5
Construction	16.2	12.2	12.8	12.5
Retail, maintenance of road vehicles, repairs	16.9	14.1	11.8	12.9
Accommodation services, catering	13.2	13.4	12.8	13.1
Transport, storage, postal services and telecommunication	21.4	14.2	17.7	15.9
Financial activities	25.9	18.0	14.4	16.2
Real estate and business services	30.4	19.4	15.0	17.2
Public administration, social security and defence	18.0	21.6	20.7	21.2
Education	21.4	20.8	18.5	19.7
Health and social care	16.2	14.1	14.7	14.4
Other services	15.8	12.4	13.6	13.0
Whole-economy total	18.7	16.3	15.5	15.9

* With respect to businesses, the data apply to companies employing more than 10 people in 1998 and to those with more than 5 employees from 1999. Annual indices calculated by the National Bank of Hungary from seasonally adjusted wage data for 1998 and from comparably structured original data from 1999 Q1.

Table V-2 Changes in wage inflation incertain priority sectors *
(Percentage changes on a year earlier)

	Per cent		
	1999		
	H1	H2	Year
Whole economy	16.3	15.5	15.9
<i>Private sector</i>	15.3	14.3	14.8
Manufacturing	15.4	14.6	15.0
Retail	14.1	11.8	12.9
Other private services	16.0	15.7	15.9
<i>Public sector</i>	19.5	18.8	19.2

* Annual indices calculated by the Bank from comparably structured original data.

Table V-3 Public sector original earnings indices and earnings indices adjusted for the effect of deferred wages *
(Percentage changes on a year earlier)

		Per cent						
		1998		1999				
		Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Public sector	CSO original	12.1	18.1	20.6	17.7	16.8	21.5	19.1
	NBH data	21.5	20.4	16.1	17.7	16.8	17.4	17.0
Private sector		16.9	18.3	14.5	14.7	14.8	12.8	14.2
Whole economy	CSO original	15.6	18.3	16.3	15.5	15.4	15.3	15.6
	NBH data	18.2	18.9	15.0	15.5	15.4	14.1	15.0

* The adjustment is based on original twelve-month gross earnings indices, that is, not on wage inflation indices, in accordance with the method described in the June 1999 Inflation Report.

¹ For more details on the methods employed, see the Box in the June 1999 *Quarterly Report on Inflation*. As a result of the use of more advanced calculation techniques, the current figures may slightly differ from those published in June. In the absence of more detailed information, it should be stressed that the adjustment, being hypothetical, serves primarily as a means of illustrating the impact of the phenomenon.

wage indices relating to mechanical engineering (18.6%) and manufacture of basic metals (11.9%). Although the underlying factor here is partly the increase in the average number of hours worked in a week (*see Box V-1*), it should be noted that the sharpest rise in wage inflation was displayed by the very sectors that reported the highest increases in the number of employed people. This signals a danger of bottlenecks in respect of skilled blue-collar labour. As another sign of relative labour market tightening it was precisely in the geographical areas dominated by the large companies in the aforementioned sectors that the economic participation rate was highest (and was steadily rising). Most remarkably, Nyugat-Dunántúl, a region in the west of Hungary – characterised by an approximately 30% rise in industrial output in 1999, compared with a nearly 40% rate in 1998 – recorded a participation rate of over 58%, which, considered together with an unemployment rate of 4.4%, indicates that the pick-up in manufacturing in the region has absorbed a major part of the local potential labour reserves.

In the second half of 1999, average wage inflation in the private sector was fuelled by the pace of earnings growth in other market services, excluding retail and vehicle maintenance. While wage growth in the latter category approached the single-digit range at the end of 1999, the index for other services remained high, on account of transport, storage, postal services and communication. It is also possible that the 18% wage inflation indices for the sector are due to labour market bottlenecks, particularly in respect of white-collar labour, reflected in both the rising number of employed people and higher earnings rates of 3.3% and 22.4%, respec-

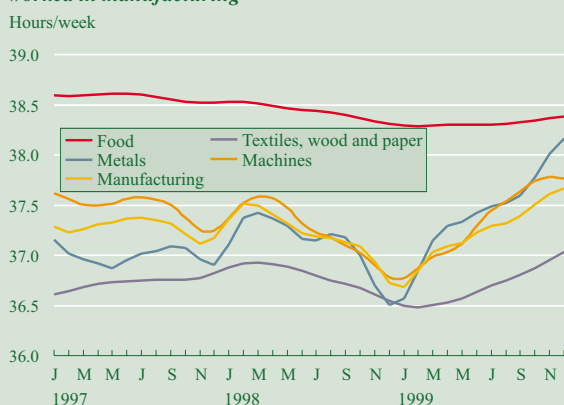
tively, in the second half of 1999, compared with the same period of the previous year.

It is primarily labour market bottlenecks in services that pose the greatest inflationary threat. In respect of manufacturing, the production side may be affected by the higher wage bill triggered by the tightness of the labour market, via worsening competitiveness. By contrast, market services wage increases, caused by labour shortages, may feed through to prices and consequently hamper disinflation.

Economic policy solutions applicable to labour shortages in manufacturing are different from those applicable to market services. As manufacturing is faced with a relative shortage of skilled manual labour, the state could seek to replenish labour reserves by streamlining the large enterprises in which it holds a majority share and by reinforcing market conditions. A longer-term solution could lie in the rethinking of educational priorities, e.g. a shift of emphasis from higher education – already a source of excess supply in many areas – to high-quality vocational training for skilled workers, as well as increasing the regional mobility of labour and capital. By contrast, market services are confronted with the dominance of public sector employment in the white-collar labour market. In 1999, the public sector employed 46% of white-collar labour, and the substantial cut in the number of employed people in the sector primarily affected the blue-collar labour force. Thus, a withdrawal of the public sector from the white-collar labour market could release new resources to be used by the services sector, thereby mitigating the danger of bottlenecks feeding through to inflationary pressure.

Box V-1 Do we interpret wage inflation properly?

Chart V-3 Changes in the average number of hours per week worked in manufacturing *



* Average number of hours per week worked by full-time blue-collar labour, calculated from seasonally adjusted monthly data. The number of hours per week should not be compared to the statutory 40 hours, but to the approximately 36 hours obtained after deducting the average number of days taken off work. Source: statistical monthly publications of the Central Statistical Office.

In an economics sense, wage inflation means the change over time in the unit price of labour. In addition to filtering out the composition effect from the average wage indices, it is also important to filter out the distorting effect of changes in the unit itself taken as a basis. In practice, this can be approached through the change in the average monthly number of hours worked in industry, which characteristically applies *payment by performance* for blue-collar labour. That is to say, besides payment by performance or by the hour, it is more expedient to define wage inflation in terms of changes in the monthly average hourly rates rather than monthly average wage, in accordance with the practice of advanced countries.

According to Bank calculations, in 1999 there was a rise in the average number of hours worked per week in most manufacturing sectors (*see Chart V-3*). The increase was especially pronounced in mechanical engineering and basic metal manufacturing, where year-on-year growth

rates in the number of hours worked were 0.5% and 1.8% in Q2, and 3.5% and 4.9% in Q4, respectively. Adjusting the wage inflation indices for these growth rates, the rate of wage inflation appears to be lower than the measured rates, eliminating the aforementioned acceleration in wage inflation observed in the middle of the year. As we do not know to what extent the companies in a sector are characterised by linking wages to the number of hours worked, the adjustment can be carried out only after *statistical testing*. In other words, *wages are adjusted only if, in the case of a given sector, we regard the impact of the change in the number-of-hours as being statistically significant*. As our aggregated wage data are not suitable for “retrospective” testing of the number-of-hours impact – the original wage data should be collected and published, after being converted to number of hours. This would ensure that wage inflation is not mixed up with the impact of a change in the number of hours worked, which influences monthly average wages.

Difficulties entailed by the international comparison of earnings levels

A Hungarian family with two children and average income has to make ends meet on one-tenth of the income received by a comparable Austrian family. A number of extreme conclusions can be drawn from this fact from the perspective of Hungary’s EU accession and wage demands of the Hungarian labour force. In the following section, we shall attempt to review the evidence on how misleading such simplified comparisons can be.

An international comparison of wages can be made in terms of competitiveness and the level of welfare. Looking at *competitiveness*, the objective is to pinpoint countries offering good returns to investors. This involves the study of the costs incurred by producing a given amount of value in different countries, i.e. the costs per one unit of labour. Information on this aspect can be found in the sections on competitiveness in the National Bank’s publications. However, the focus of attention now is the comparison of earnings levels in terms of the degree of *welfare* they provide: international income differentials are commonly regarded as being “unfair”, resulting in a large-scale migration of the labour force.

This view, however, is based on a misunderstanding: instead of earnings levels it is the *standards of living* allowed by them that should be the basis of comparison. Such international comparison is rather difficult. This is because standards of living are determined by *consumption*, in the broadest sense of the term. In order to “translate” money wages in different countries into consumption terms, one must compare the prices of identical amounts of consumption. This tends to be problematic due to differences in the composition of consumption. The difficulty is that consumption comprises (a) internationally traded products (called *industrial goods*), (b) domestic goods purchased in exchange for money (called *services*); (c) non-purchased goods of one’s own production (called *self-consumption*) and (d) public goods and services.

Industrial goods pose no difficulty, as differences between domestic and foreign prices tend to level out over the longer term via movements in the exchange rates of currencies. Although relative international prices for services do not necessarily level out, it is possible to calculate special currency rates that take account of their relative price levels. *Purchasing power parity* (PPP) exchange rates may differ considerably from official rates, depending on the level of economic development: in less developed countries, due to the lower price level of services, costs of living are lower, consequently, their official exchange rates relative to developed countries are undervalued (for example, according to OECD calculations in 1998, the forint was undervalued by 59% against the Austrian shilling). Therefore, a comparison of wages at PPP rates of exchange is more likely to give a more realistic picture of the ratio of domestic and foreign price levels of consumption. Nevertheless, *non-purchased components* of consumption will continue to be a source of additional difficulty.

The *price* of non-purchased consumption, referred to under (c) and (d), is difficult to determine, being, as it is, only imperfectly reflected by PPP exchange rates. Let us take a look at *self-consumption* first. The price of consuming goods produced by households, including, for instance, agricultural produce or housework done, can only be measured in terms of the hours worked. Evaluating self-consumption poses problems as its weight varies widely according to the level of economic development: it is usually higher in less-developed countries (in Hungary, self-consumption accounted for 7–8% of household consumption, according to data published by the Central Statistical Office for 1995 and 1996). Although attempts have been made at imputing the relative price of self-consumption into PPP exchange rates, this seems to be less feasible in the case of less developed countries, on account of the greater significance of self-consumption in such countries. As PPP exchange rates can only take account of the price-level-decreasing effect of self-consumption to a limited extent, the exchange rates of less developed countries become undervalued.

Public services constitute another component of non-purchased consumption. Their significance in Hungary exceeds that in many developed countries, which may lead to an underestimation of the level of welfare in Hungary. The price of *public services provided typically by the state*, such as health care services, education and public safety, comprises the total amount of wage-related tax burden, including contributions, to be paid by employees and employers. The proportion of the tax burden varies from country to country, reflecting on the level of services provided by the state and not the private sector, financed from taxes, as well as on the nature of income redistribution, and, in general, the efficiency of the state. On account of the consumption of public goods and services,

neither net wages nor gross wages are suitable for international comparison. A comparison of *net* wages will underestimate the welfare of employees in countries where there is a greater state participation in the provision of services, which implies a higher tax burden, while the comparison of *gross* wages will underestimate the welfare of people in countries with less efficient states.

A special cause for underestimating social welfare in Hungary also lies in the taxation system: *benefits in kind* are of key significance in Hungary in contrast with the developed countries. In Hungary, entrepreneurs resort heavily to providing refunds and generous benefits in kind, such as company cars or mobile phones, because of the high tax rates levied on wages. Since in contrast with money wages, the value of benefits in kind is rather difficult to measure, and such goods and services are *absent from both earnings statistics and household consumption*, the consequence is an underestimation of the extent of Hungarian welfare.

Clearly, comparison of domestic earnings levels with those of advanced economies is not an easy task, as it is likely to result in the significant underestimation of Hungarian welfare. This seems to be supported by the fact that in terms of natural indicators Hungary stands much closer to Austria than is implied by wage differences. Accordingly, in terms of the number of television sets or telephone lines per one thousand employees, Hungary was behind by merely 12% and 28%, respectively, while it even surpassed Austria in terms of the availability of cable television.² In our view, worries about implications of European integration, such as migration on a large scale, are just as unfounded as any attempt at remedying the “unfair” gap by demanding wage increases. It is not the wage levels themselves of the various countries that should be compared, but the welfare that such wage levels are capable of producing. Numerous components of consumption determining welfare – such as benefits in kind, the general level of domestic prices, self-consumption or income expectations – are determined by the level of economic development, just as the wage levels themselves. These components, however, indicate the levelling out of the effects wage differentials have on welfare.

2 Capacity utilisation

The level of capacity utilisation in manufacturing³ in 1999 offers a good illustration of the changes in the external economic conditions and the process of accommodation to such. From the second half of 1998 to mid-1999, the average level of capacity utilisation followed a downward trend, due to a considerable slowdown in production growth, caused by the Russian crisis, sluggish economic activity in Western Europe and the weakening of investment activity. Manufacturing ca-

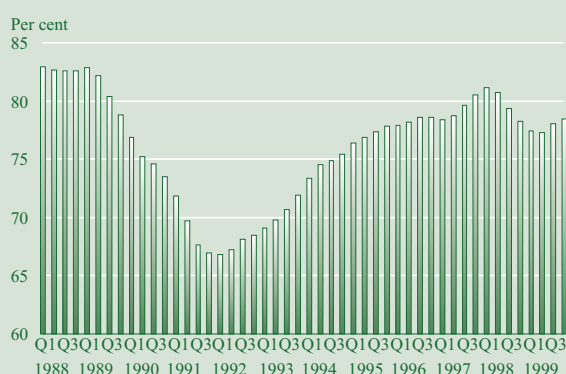
capacity utilisation gained momentum again in the second half of 1999. This pick-up was due, on the one hand, to the much less marked expansion of manufacturing capacities in the course of 1999 than the year before - also reflected in the sector's employment and investment indicators. In addition, stronger activity with a favourable impact on production during the second six months also played a role. In spite of this second-half upturn, capacity utilisation fell short of the average for the period between 1996 and 1999 or the peak levels seen at end-1997 and early 1998, even during the rest of the year (see Chart V-4).

In 1999, the proportion of businesses reporting tight capacities relative to prospective orders remained flat for the year as a whole, implying that a shortage of capacities was primarily a problem for businesses less sensitive to cyclical changes.

Empirical research on the largest manufacturers also reflects the aforementioned trend in the utilisation of (technical and personnel) manufacturing output capacities.⁴ Accordingly, average capacity utilisation rates, at 78–82% in the first half of 1999, rose to 80–83% in the second half. Over the final months of the year there was a significant rise in both the proportion of firms with improved levels of capacity utilisation and those expecting an increase in the volume of orders over the following six months.

In sectors other than manufacturing there is no statistical information available on the level of capacity utilisation. The likelihood of the emergence of tight capacities in this segment of the economy is reduced by the fact that over the last few years, the area of market services accounted for roughly 40% of total investment.

Chart V-4 Average capacity utilisation in manufacturing *



* Seasonally adjusted data. Source of original data: Kopint-Datorg.

² These figures are especially remarkable considering that they are from 1997, i.e., *prior to* 1998 and 1999, a period marked by an upsurge in the domestic sales of consumer goods.

³ Based on the quarterly business cycle surveys prepared by Kopint-Datorg.

⁴ Táarki Business Cycle Tests on the state and prospects of the largest manufacturers.

3 Competitiveness

In 1999, the movements in the various real exchange rates followed an opposite trend to that seen in 1998. Price-based indices implied a gradually rising trend of appreciation, whereas unit labour cost-based indices indicated a gradual depreciation. For the year as a whole, there were favourable developments in terms of competitiveness (see Table V-4).

The major factors determining competitiveness in 1999 included: (1) the exchange rate of the forint, which, after weakening within the band due to the Russian crisis, strengthened again in 1999, reaching a position which it kept practically throughout the year, (2) the continuous weakening of the euro; (3) the interruption in disinflation in the second half of the year, (4) the acceleration of manufacturing prices, and (5) the exceptional improvement in unit labour costs in the second half of the year.

In 1999, the nominal effective exchange rate of the domestic currency depreciated by a total of 7%, compared with the official measure of 8.4%. This difference is explained by the aforementioned intra-band appreciation of the forint and the steady weakening of the EUR/USD cross rate.⁵

The long-term trend of appreciation of the CPI-based real exchange rate continued, amounting to 1.6% in a year-on-year comparison. This rate of appreciation still falls within the annual 2–3% range the Bank considers as being an equilibrium rate, which is estimated as being justified by the productivity difference between the tradables and non-tradables sectors.⁶ In a twelve-month comparison, however, the amount of appreciation within the year gathered pace steadily, first relative to the depreciated base and, from the second half of the year, due to the halt in consumer price disinflation, caused primarily by changes in the pharmaceuticals subsidy system. In the final quarter this led to an approximately 7.1% appreciation in the twelve-month index.

As in the Bank's view there was no change in the position of domestic producers, an appreciation of this magnitude in the CPI-linked exchange rate is not regarded as having a critical impact on the supply-side conditions of competitiveness. On the other hand, a change in the external position induced by the potential impact of the relative price change on demand is not expected since pharmaceuticals have sufficiently low price elasticity and are not easy to substitute, which means that additional consumer demand for different products is not likely to emerge.

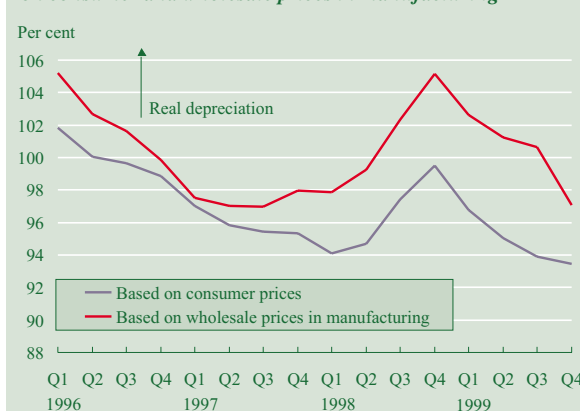
The manufacturing-based real exchange rate appreciated by 0.4% in 1999, which coincides with the expectations that this index is not likely to follow a systematic long-term trend, as it is essentially based on tradables

Table V-4 Various exchange rate indices *
(Previous year = 100)

	Nominal exchange rates				Real effective exchange rates		
	Nominal effective exchange rate		Exchange rates of basket currencies		Deflator		
	At market rates	At official central parity	At market rates	At official central parity	Consumer prices	Manufacturing prices	Unit labour costs
1995	128.9	130.6	128.4	130.1	103.2	105.6	122.7
1996	116.7	117.6	116.6	117.5	96.8	95.8	110.6
1997	111.0	111.0	113.2	113.2	95.8	95.1	99.4
1998	113.0	111.4	113.8	112.2	100.5	103.8	104.5
1999	107.0	108.0	107.3	108.4	98.4	99.6	105.3

* Indices in excess of 100 indicate depreciation.

Chart V-5 Real effective exchange rate of the forint based on consumer and wholesale prices in manufacturing



prices (see Chart V-5). However, sub-annual movements in the index reflect steady acceleration, pushing up the fourth-quarter year-on-year rate to as high as nearly 8%. The question is what could have caused this sharp removal of the rate from the theoretical expectation, and what its likely impact is going to be on competitiveness.⁷ The answer is that the manufacturing-based

⁵ The EUR/USD cross rate affects the nominal effective exchange rate index, because the dollar weight in the index, reflecting the country structure of foreign trade, is considerably lower than 30%, the weight it held in the basket in 1999. Consequently, the weakening of the euro against the dollar puts upward pressure on appreciation as against the official devaluation. The direction of this effect reversed as a result of the switch to the 100%-euro basket, in other words, it is now considerably smaller. Thus, a cross-rate effect of 1% will cause a smaller difference between the official rate of devaluation and the nominal effective depreciation. For a detailed discussion of the subject, see Zoltán M. Jakab (1998): "Deriving an Optimal Currency Basket for Hungary", NBH Working Paper Series, 12/1998.

⁶ For further discussion of the issue and the size of equilibrium appreciation, see Kovács-Simon "Components of the Real Exchange Rate in Hungary", NBH Working Paper Series, 1998/3.

⁷ With a flexible exchange rate regime, there can be considerable fluctuations in the real exchange rate exclusively comprising tradable goods, and convergence between the exchange rate and the inflation differential is only expected over a relatively longer term. When, however, the existing exchange rate system is a fixed peg, the above convergence is much more frequent, faster and involves smaller volatility.

real exchange rate appreciated as a result of the roughly 40% annual rate of oil price increases pushing up prices in the chemical industry. Technically, this must be due to the composition effect, given that the Hungarian chemical industry is not considered to be more energy-intensive than that in other competing countries in Western Europe. Therefore, a rise in oil prices should not cause a higher degree of price increases in Hungary than that faced by its competitors. As, however, the chemical industry has a larger share in Hungarian manufacturing than abroad, it caused a more pronounced rise in the aggregate price index than in Western European countries. From the aspect of competitiveness this could have unpleasant implications in the following two situations:

- if the energy price increase turns out to be of a lasting nature and the relative change in prices entails a worsening of the state of the chemical industry compared with the other manufacturing sectors, in which case Hungary may suffer a relative decline in exports given the greater reliance of Hungarian exports on the chemical industry as compared with our competitors;
- if the Hungarian economy is more energy-intensive than its competitors.

Table V-5 Components of the unit labour cost-based real exchange rate
(Previous year = 100)

	Per cent							
	GDP	Number of employed people	Productivity	Average labour cost	Unit labour cost	Foreign unit labour cost	Nominal effective index	Real effective index
1995	108.2	95.0	114.0	120.3	105.6	100.5	128.8	122.7
1996	104.7	94.8	110.5	118.3	107.1	101.7	116.4	110.6
1997	110.4	99.8	110.7	121.3	109.6	98.1	111.0	99.4
1998	111.8	102.9	108.6	116.3	107.1	99.1	113.0	104.5
1999	110.1	101.6	108.4	111.9	103.3	101.7	107.0	105.3

* An index value higher than 100 signifies improvement in competitiveness.

Chart V-6 Real effective exchange rate of the forint based on unit labour costs in manufacturing

(1994 = 100)



As the first situation can only emerge over the longer term, it basically has no relevance for monetary policy. With regard to the second proposition, although it seems to be true according to certain estimates, the magnitude of the associated effect is rather uncertain and insignificant, leaving the group of exporters having a critical impact on the external balance unaffected. All in all, the fact that there was stronger appreciation in the manufacturing-based real exchange rate as a result of oil price increases poses no risk to competitiveness that is relevant for exchange rate policy.

In contrast with the price-based indicators discussed above, the unit labour cost-based index followed a trend of depreciation. The real exchange rate depreciated by 5.3%, about 1 percentage point more than the previous year. The year-on-year indices reflect a relatively even-paced development of the index, while it is clear from the analysis of the different levels that following a flat period early in the year, real depreciation resumed in the second six months, due to exceptionally high manufacturing output. Simultaneously with the steady decline in wage growth, productivity improved at a faster pace.

Since early 1998, the steady improvement in the unit labour cost-based real exchange rate has been due in large measure to foreign direct investment, which caused productivity to improve considerably faster than wage growth. This, however, does not necessarily mean better competitiveness for exporters. In theory, the index improves – assuming unchanged external conditions for simplicity's sake – provided that wages calculated in foreign currency terms grow at a lower rate than productivity. The problem is that productivity can also rise even if the referred (wage-productivity) ratio remains unchanged, and, vice versa, a flat profitability rate can also go hand in hand with a drop in the wage-productivity ratio.⁸ Accordingly, it seems worthwhile to ask what is really signalled by the improving trend of the profit-based index. As we believe that the existence of positive technological shocks may temporarily improve the index, which will only deteriorate in a later phase, it can be assumed that the increased competitiveness of the manufacturing sector is reflected in the steady improvement, also manifest in robust export growth and the sector's rising market share in 1999.⁹

⁸ Assuming that sales prices remain unchanged, changes in the wage-productivity ratio reflect changes in labour's marginal product–average product ratio in the long term, and alongside increasing profitability this can also be increasing. For further discussion of the problem, see András Mihály Kovács, "The Information Content of Real Exchange Rate Indicators", NBH Working Paper Series, 8/1998.

⁹ More on the changes in market share in Box V-2.

Box V-2**Trade relations of Hungary, the Czech Republic and Poland with OECD and EU countries¹⁰****The share of the OECD¹¹ and the EU in Hungarian, Czech and Polish exports**

In the year to August 1999, exports in euro terms to OECD and EU countries rose by around 14%. These two country groups account for the largest share in Hungarian exports, with 87.5% and 76% respectively, although the share of Polish and Czech exports to these countries in the period under review grew at a 2–5% higher rate (see Table V-6).

As far as exports to the EU are concerned, Germany soaks up 60% of Czech, 51% of Polish and 49% of Hungarian exports. The achievements of the three countries in the German market between 1993 and 1998 can be viewed as a good starting point for an evaluation of the development of the structure of exports to developed countries and the state of competitiveness;¹² high-tech goods accounted for 43% of Czech and 65% of Hungarian exports to Germany in 1998. The increment in exports to Germany between 1993 and 1998 was composed of 56% technology-intensive products in the case of the Czech Republic, and 83% and 29% in the case of Hungary and Poland, respectively. All this indicates a favourable trend of differentiation in Hungarian exports, relative to rival countries in Central Europe.

Table V-6 Contribution of exports by groups of countries

	1995	1996	1997	Jan.–June 1998	Jan.–Aug. 1998	1998	Jan.–June 1998	Jan.–Aug. 1998
<i>Exports to the OECD as a percentage of total exports</i>								
Czech Republic	81.2	70.8	73.4	76.2	76.0	77.1	82.19	82.01
Poland*	75.1	71.7	69.1	72.2	71.2	73.5	76.76	77.44
Hungary	75.0	80.2	81.6	82.9	83.0	84.2	87.76	87.44
<i>Exports to the EU as a percentage of total exports</i>								
Czech Republic	60.9	58.2	59.9	63.1	63.0	64.2	69.65	69.20
Poland	70.1	66.3	64.2	66.1	66.0	68.3	71.83	71.25
Hungary	68.0	69.7	71.2	71.9	71.8	72.9	76.19	75.76

* Data on exports to the OECD are available for 1998 and the first half of 1999. Accordingly, exports to OECD countries in the first half of 1998 were identical with those of the Czech Republic, as a percentage of total exports, and in 1999 H1 exceeded such by 1.5%.

Share of Hungary, the Czech Republic and Poland in the imports to the OECD and the EU

Between 1995 and August 1999, Hungary continuously raised its export share towards both the OECD and the EU, while Poland's share remained at the same level and the Czech Republic, after an initial slump, saw a major upsurge over the past two years. Thus, the initial lead in market share held by the Czech Republic and Poland seems to have narrowed: while in 1995 Hungary's share in EU imports amounted to 60.15% of Poland's and 74.7% of the Czech Republic's, by 1999, these proportions had changed to 97.9% and 93.7%, respectively. This indicates that by 1999, the shares in OECD and EU imports held by the three countries had practically levelled out. Still, Hungary has continued to increase its market share during the period of catching up.

Export share in OECD imports

Apart from a slump in 1999 recorded by Poland, the three countries under investigation held a steadily growing – although still low (half a per cent) – share in OECD imports (see Table V-7).

Table V-7 Shares in exports to OECD countries

	1995	1996	1997	Jan.–June 1998	Jan.–Aug. 1998	1998	Jan.–June 1999	Jan.–Aug. 1999
<i>Share of export in OECD imports (%)</i>								
Czech Republic	0.51	0.43	0.46	0.53	0.53	0.54	0.57	0.56
Poland	0.50	0.49	0.49	0.54	0.54	0.55	0.54	0.53
Hungary	0.32	0.35	0.43	0.49	0.48	0.52	0.54	0.53

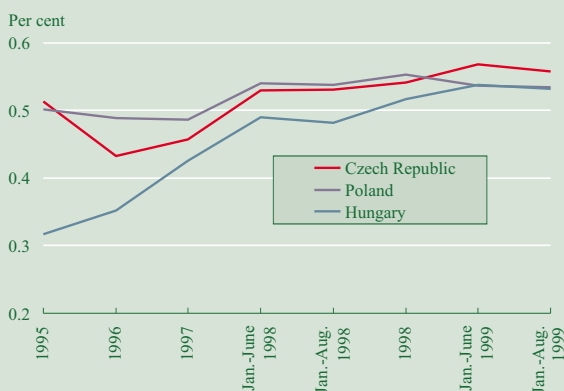
¹⁰ Source: OECD Main Economic Indicators 1999/08, as well as Czech, Polish and Hungarian national statistics.

¹¹ For Poland, data on developed countries instead on the OECD is used.

¹² Source: András Inotai, "The Advance of Restructuring in Hungary and other Central and Eastern European Countries in the Light of Exports to Germany, 1989-1998", 1999, a publication of MTA VKI and OMFB.

In 1999, Hungary recorded the highest year-on-year growth – of approximately 10% - in its share in OECD imports. This brings the improvement in its share to 70% in the period since 1995, compared with 6% and 9% achieved by the Czech Republic and Poland, respectively.

Chart V-7 Shares in exports to EU countries



This brings the improvement in its share to 70% in the period since 1995, compared with 6% and 9% achieved by the Czech Republic and Poland, respectively. The increase in Poland’s market share seems to have halted in 1998 and turned into a decline in 1999. After a slump in 1996, the Czech Republic managed to recover its share, which has been growing at a similar rate to Hungary’s since 1998 (see Chart V-7).

Shares in exports to EU countries

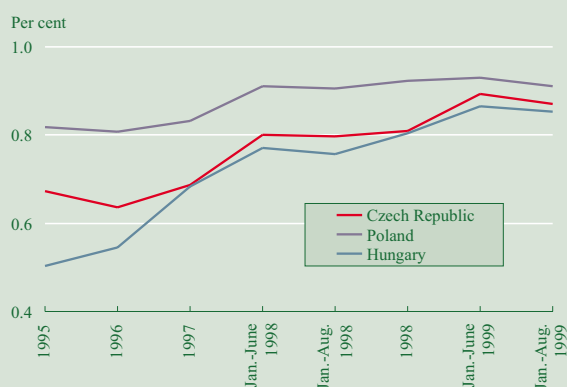
The share of the countries under investigation in exports to EU countries was similar, although somewhat higher (close to 1%), and appeared to grow at a slow rate in the period under review. After growing at an even pace, Hungary’s 0.3% share in EU imports in the early 1990s had nearly tripled by 1999 (see Table V-8).

Table V-8 Share of exports in EU imports

	1995	1996	1997	1998 H1
<i>Share of export in EU imports (per cent)</i>				
Czech Republic	0.67	0.64	0.69	0.80
Poland	0.82	0.81	0.83	0.89
Hungary	0.50	0.55	0.68	0.77

Hungary managed to raise its market share in EU imports by 12.7% over the past year, 3.5 percentage points higher than the other fastest rate of growth recorded by the Czechs. Between August 1995 and August 1999, Hungary’s share rose by 70%, from 0.5% to 0.85%, which means that country has successfully narrowed its considerable lag seen at the beginning of the period and caught up with its rivals. Of the three countries, Poland continued to have the largest share in EU imports, which, however, is not expanding at a rapid pace. In the first half of 1999, the Czech Republic achieved fast growth, approaching Poland’s share and exceeding the Hungarian growth rate by 2.5%. However, this difference had dropped to 1.5% by August 1999 (see Chart V-8).

Chart V-8 Shares in exports to EU countries



VI. External equilibrium

1 Net financing need and capacity¹

Over the past two years, the Hungarian economy has significantly improved its flexibility and ability to react to unexpected changes in external market conditions. Economic growth in 1999, which was faster than the EU average, was achieved without causing any perceptible changes in the equilibrium position. In the first half of the year, the danger of a marked fall in external demand, the natural disasters that struck the country and then the war in Yugoslavia reinforced expectations of deterioration in domestic and foreign equilibrium positions. However, as the year progressed, there were changes in the rate of growth and utilisation of income, and some of the negative factors proved to be merely temporary. The private sector did not take long to adapt to the new circumstances, and the general government also consistently curbed its financing demand over the year. Thanks to the export capacities established over the past few years, Hungary's dependence on the external cyclical position appeared to be less pronounced, and the financing requirement as a proportion of GDP remained around the level seen a year earlier, with the budget deficit also remaining virtually unchanged in 1999. The favourable trend in economic fundamentals tended to strengthen investor confidence.

The external position remained virtually unchanged despite household consumption expanding faster than GDP growth. This, however, did not lead to any tension, as disposable income (as a proportion of GDP) grew at a

similar pace, due to the fact that non-domestic residents cut back on the year-on-year repatriation of their profits on capital investment as a proportion of GDP. Thus, the country's gross savings – as a proportion of dynamically growing GDP – remained at nearly the same level; nor

Table VI-1 Saving and investment rates*
(Adjusted for inflation, as a percentage of GDP)

	Per cent				
	1995	1996	1997	1998	1999
Gross domestic product	100	100	100	100	100
Net income transfers	-4.0	-3.2	-3.1	-4.0	-3.3
Unrequited transfers	2.5	2.0	2.2	2.2	1.9
Disposable income	98.5	98.8	99.1	98.2	98.6
Of which: Household sector	74.2	72.7	70.4	71.2	71.2
Corporate sector	10.5	10.7	13.8	13.2	14.4
General government	13.9	15.4	14.8	13.8	12.9
Final consumption	77.3	73.9	72.3	72.5	73.0
Of which: Household sector	66.3	63.7	61.7	62.3	62.7
Public sector	11.0	10.2	10.5	10.2	10.2
Gross national savings**	21.2	24.9	26.8	25.7	25.6
Of which: Household sector	7.9	9.0	8.7	8.8	8.5
Corporate sector	10.5	10.7	13.8	13.2	14.4
General government	2.9	5.2	4.2	3.7	2.7
Net capital transfer					
Of which: Household sector	0.7	0.8	0.5	0.4	0.4
Corporate sector	1.0	0.7	0.8	1.2	0.9
General government	-1.8	-1.5	-1.3	-1.6	-1.2
Investment	23.9	27.2	27.8	29.9	29.9
Of which: Household sector	4.9	5.0	5.2	4.5	5.9
Corporate sector	16.1	18.9	18.8	21.6	20.6
General government	2.9	3.2	3.9	3.7	3.4
Net financing requirement (-), capacity (+)					
From abroad***	-2.8	-2.3	-1.0	-4.2	-4.3
Households	3.7	4.8	4.1	4.7	2.9
Corporate sector	-4.6	-7.5	-4.1	-7.2	-5.3
General government	-1.8	0.5	-1.0	-1.7	-1.9
General government net of pension reform	-1.8	0.5	-1.0	-1.4	-1.4

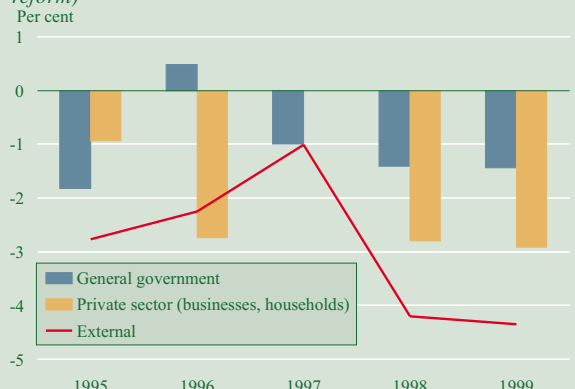
Note: Estimates by the National Bank. Due to rounding, the total of individual entries may differ from the total presented in the table.

* Saving rates do not include the rate of compensation for inflation contained in interest rates. In addition, household savings do not contain the effect of revaluation on financial assets or front effects on foreign-exchange volumes due to exchange rate changes. In the government balance (GFS-approach deficit-less privatisation) interest expenditures are recorded on the basis of the accruals principle. Non-domestic residents' net position is only an approximation of the accruals concept, as interest and dividend payments are identical with the balance of payments, i.e. they are accounted in terms of the cash-flow approach.

** Gross saving = disposable income (derived from GDP) less final consumption (household and public consumption). Disposable income includes the sum of the gross domestic product for the given period and the balance of income transfers and unrequited transfers to and from non-Hungarian residents (as recorded in the balance-of-payments statistics).

*** Net financing need/capacity = gross savings minus investment adjusted for capital transfers. The entry for non-domestic residents shows the national economy's financing requirement from abroad ('-' = financing requirement).

Chart VI-1 Net financing requirement (-) / capacity (+), as a percentage of GDP
(Inflation-adjusted data, without the effect of the pension reform)

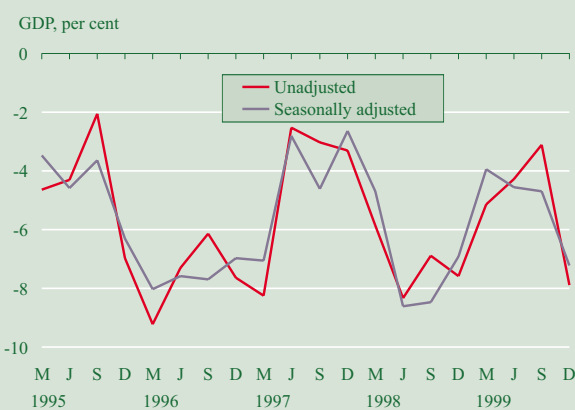


by the fact that weak external demand hit the economy just as long-term robust growth was taking off. A tightening of foreign markets appeared in 1998 when corporate investment growth was at its peak and household consumption was expanding at the same rate as GDP, hand in hand with the rising financing need of the private sector. This financing requirement was not counteracted by the general government, the deficit of which was on the increase, partly because of the absence of expected receipts. All of this led to a sudden rise in Hungary's external financing need in 1998.

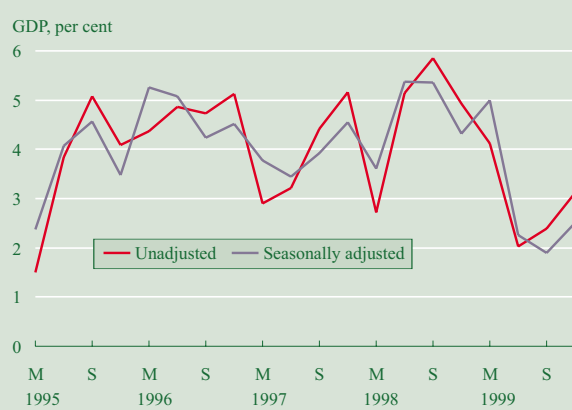
In 1999, the situation seemed to stabilise in spite of the worrying signs early in the year. The second half of the year witnessed an upturn both in equilibrium and economic growth. The private sector responded flexibly

Chart VI-2 Inflation-adjusted net financing requirement (-) / net financing capacity (+)

Enterprises



Households



was there any increase in the investment to income ratio. This was because corporate investment growth remained subdued especially in comparison with the exceptionally high level in 1998, and from 1999 Q2 the investment policy of the general government paid special attention to the requirements of equilibrium. Investment spending was also held down as the high level of stocks accumulated in the second half of 1998 following the Russian crisis were run down in the course of 1999.

Table VI-1 shows the net financing need/capacity² derived from the income balances (taking account of gross saving and investment) of the different sectors.

Over the past two years the income position and saving behaviour of economic agents has been influenced

to challenges, while its demand for funds remained unchanged. There was no major growth³ in the government deficit for the year as a whole, and it remained unchanged without the effect of the pension reform (*see Chart VI-1*).

The fact that the financing need of the private sector remained virtually unchanged was the result of opposing trends. While the corporate sector increased its need, households' net financing capacity deteriorated. These trends remained prevalent throughout the year, but in the final quarter upward pressure on the financing requirement of the corporate sector appeared and households stepped up financial saving, as a result of the simultaneous contraction of economic growth and government demand.

There was an improvement in business conditions within the corporate sector. Company profits increased and income was reallocated towards the sector. Profit repatriation by non-domestic residents – although the same in absolute terms as in 1998 – decreased as a proportion of GDP, while the exceptionally fast investment growth seen in the previous year slowed, parallel to a de-

² In accordance with international usage, the saving-investment balance is referred to as the net financing capacity/requirement (need). The financing requirement (the balance of saving and investment) defines a 'theoretical' current account on the balance of payments, which is different from that based on balance-of-payments statistics.

³ In 1998, the pension reform worsened the government deficit by 0.3% of GDP, compared with 0.5% in 1999. After other corrections are made in accordance with SNA rules (for detailed discussion see the chapter on the fiscal stance), the demand-restrictive impact of the government is clearly visible.

cline in the level of stocks. Consequently, for most of the year, firms' demand for funds was weaker than usual. Against a background of continuously strong domestic demand from the second half of the year, the volume of orders turned up, which led companies to revise their expectations. This is indicated by responses to company business surveys conducted in the final third of the year. Ever increasing numbers of economic agents expected stronger profitability and a further pick-up in production, boosting investment intentions and corporate demand for credit in the final quarter.

Households' net financing capacity remained at a low level throughout 1999, its deterioration being attributable to the correction of the exceptionally high financial savings seen in 1998. Growing employment and a steady rise in real incomes and economic performance boosted individuals' confidence in improving living conditions, resulting in faster expansion of consumption and investment than of disposable income. This trend was also enhanced by stronger consumer credit and a drop in the number of liquidity-constrained households, together with further progress in the financial intermedi-

ation system. Aggregate propensity to consume increased, putting the brakes on households' net financial saving. Despite the slight improvement in the second half of the year, households' net financing capacity as a proportion of GDP did not approach the average for the preceding years (*see Chart VI-2*).

The degree of income centralisation by the state contracted in 1999 (from 13.8% in 1998 to 12.9%), and there was hardly any change in the public sector financing requirement, despite the critical situation early in the year. Therefore, nothing posed a threat to the stabilisation of the external position. This was due to both structural and one-off factors. In the first quarter, the deficit was exceptionally high as a result of temporary (mostly sub-annual) deficit-boosting effects (such as the unusual timing of agricultural subsidies early in the year). From the middle of the year, however, the government altered its consumption and investment plans. Accordingly, expenditures were curtailed and the customarily high year-end subsidies were not granted. Stronger economic growth was also beneficial to the decline in the deficit.

Box VI-1

Private pension funds

The pension reform became effective on January 1, 1998. Two areas were critically affected. First, the retirement age was raised to 62 on a universal basis, allowing for a number of concessions in the transition phase. Second, in addition to the pay-as-you-go pillar, a privately managed, funded pillar was introduced as a mandatory system for people entering employment for the first time and optionally for those already employed. In formulating the rules of the system, care was taken to limit the loss incurred by the social security fund as a result of the transferred contributions to 1% of GDP.

The new system proved to be more successful with employees than expected, as reflected in the number of transferees to the private funds being double the original estimate. *Membership in private pension funds at end-1998* stood at 1.3 million, with membership fees collected amounting to HUF 28.6 billion. As a result, the originally estimated HUF 20 billion budget expenditure (0.2% of GDP) had to be revised upwards to HUF 28 billion (0.3% of GDP). At the end of 1999, the market value of pension fund investments amounted to HUF 29.1 billion.

New members of the funds in 1999 comprised only newly employed people beginning their careers, and the system of optional transfer was abandoned as of September 1st. Preliminary data indicate that the number of private pension fund members stood at 2.07 million at the end of November, equalling 50.3% of the active population. The number of people who had left the funds (owing to withdrawal, death or disability) by the end of September 1999 amounted to 9,268.

Of the 32 licensed pension funds, the six largest accounted for 79% of total membership, and 78% of membership payments deposited on the individual accounts. These funds all have backgrounds in banking or insurance. Funds operated by employers and various sectors manage 4% of the membership and 9% of total fees.

According to preliminary data, fund members' contributions in 1999 were worth HUF 57.0 billion (0.5% of GDP), putting downward pressure on government receipts. The planned loss in revenues amounted to HUF 69.9 billion. The wealth managed by private funds at the end of September was recorded as being approximately HUF 70 billion. The bulk of the funds is held in government securities (84.7%), with the share of equity holdings also having increased by the end of the period (7.1%).

The successful debut of private funds gave impetus to the further development of voluntary management forms. At the end of September 1999 there were 296 *voluntary funds* in operation. The 1.1 million membership figure was up by 12% on the end of 1998. The registered assets of these funds amounted to HUF 137.3 billion, 79.5% of which was held in government securities and 8.7% in shares. While 95–98% of the membership and the investments are linked to pension funds, there is growing evidence that health and mutual funds have overtaken pension funds in terms of the size of membership and managed funds.

Table VI-2 Distribution of gross disposable income
(Percentages based on inflation-adjusted data)

	Per cent				
	1995	1996	1997	1998	1999
Gross savings	100.0	100.0	100.0	100.0	100.0
Household sector	75.3	73.5	71.1	72.5	72.2
Corporate sector	10.6	10.9	14.0	13.4	14.6
Private sector	85.9	84.4	85.1	85.9	86.8
General government	14.1	15.6	14.9	14.1	13.1
Gross savings as a proportion of GDP	21.2	24.9	26.8	25.7	25.6
GDP volume index	1.5	1.3	4.6	4.9	4.4

Note: National Bank estimates

Table VI-3 Net financing requirement and the current account deficit, as a percentage of GDP

	Per cent				
	1995	1996	1997	1998	1999
Current account	-5.5	-3.7	-2.1	-4.9	-4.3
Net foreign financing need	-2.8	-2.3	-1.0	-4.2	-4.3

Note: The difference between the published and the theoretical current account deficit is due to the fact that Hungarian balance-of-payments statistics are currently based on cash-flow accounting, i.e. transactions between domestic and foreign residents that involve no money flows are not recorded. In addition, there can be a timing difference between real transactions and monetary transactions.

In spite of the strong fluctuations in the income structure and the saving capacity of the various sectors over the year, the situation for the year as a whole reflects the continuation of the previous trend (see Chart VI-2) of the government's declining role of income redistribution, an increase in companies' own funds and the improvement in the position of the corporate sector.⁴

The restructuring of income positions did not exert upward pressure on the external financing requirement (the saving-investment balance, which defines a 'theoretical' current account), and there was a simultaneous drop in the current account deficit as a percentage of GDP (see Table VI-3).

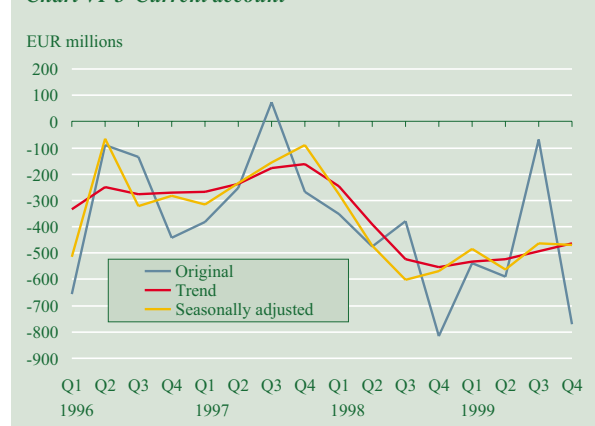
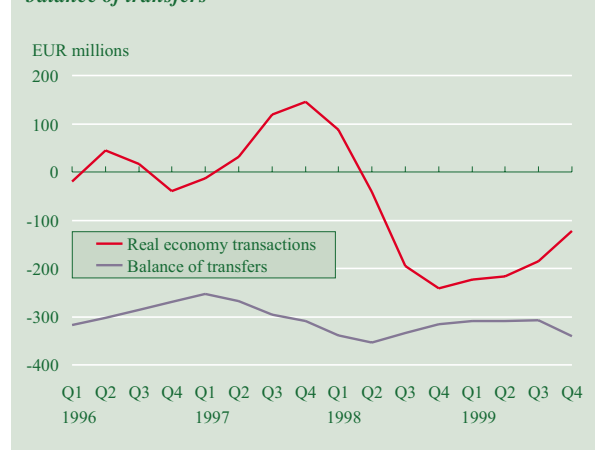
2 Current account and its financing

While the year-on-year improvement in the current account deficit of the balance of payments in 1999 is rather small in euro terms, the improvement looks much larger as a proportion of GDP. Compared with the EUR 2,020 million deficit in 1998, which represented

⁴ This, however, is not comparable to the radical internal restructuring seen in the early 1990s. The period between 1994 and 1996 drastically transformed the income positions of households, companies and the government. Transition to a market economy, market-oriented reforms aimed at facilitating a more efficient utilisation of financial resources, and fiscal and monetary adjustments boosted economic efficiency and had a perceptible impact on the distribution of income. There was an increasingly strong differentiation of incomes, which influenced the saving habits of economic agents.

4.8% of GDP, the EUR 1,970 million deficit in 1999 amounted only to 4.3% of gross domestic product.⁵

Following a decline in 1998, the current account in the balance of payments followed a moderate, but steadily improving trend in 1999 (see Chart VI-3). The long-term ramifications of the 1998 Russian crisis (causing further deterioration in the balance relative to the base period) and the weaker activity in the EU, the demand-restricting impact of recession in CEFTA countries and the war in Yugoslavia, were all sources of uncertainty early in the year. These factors were further aggravated by the budget deficit, which appeared rather high in proportion to the amount of time elapsed. Nevertheless, the deficit in the trade of goods and services only rose slightly for the year as a whole. This was largely due to the continued relatively high level and stable growth

Chart VI-3 Current account**Chart VI-4 Trends in real economy transactions and the balance of transfers**

⁵ The indices in the text shown as a proportion of GDP as well as of goods and services exports are derived from data expressed in euro terms. As these data are recalculated into the common currency (EUR) terms at average monthly rates of exchange, they exhibit a certain amount of cross-rate effects. The GDP-proportionate current account deficit for 1998 calculated from data given in forint terms was 4.9%.

of exports to developed countries, as well as the fact that the response by the Hungarian economy to the adverse external conditions – first and foremost by a slowdown in investment growth – caused no additional increase in the demand for imports.⁶ Furthermore, from the middle of the year the favourable changes in the external environment managed to dispel the uncertainty to a considerable extent.

The deterioration in real economy transactions⁷ compared with the previous year (see Chart VI-4) was increasingly offset by a better position in terms of income transfers, with particular regard to those associated with debt. Towards the end of the year, the improvement in equilibrium due to the beneficial impact of stronger external activity in the second half of the year on real economy developments was hampered by the effect of dividend and profit repatriation.

The decline in debt-type income transfers is explained by the lower net interest payments of the Government and the National Bank. Over the past few years, the general perception of Hungary in international money markets has been steadily improving, with a large portion of the loans with less favourable interest payment conditions having been prepaid and more recent loans taken on more favourable terms than the expiring ones. The decrease in interest expenditures in 1999 took place against a background of international money markets witnessing a considerable, although temporary, year-on-year rise in the level of risk premium, following the Russian crisis (due to increased uncertainty surrounding converging and developing countries).

Non-debt type income transfers amounting to roughly EUR 860 million – including repatriation by foreign residents of dividend payments received on interests representing an ownership share of less than 10% (qualified as portfolio investment) and an ownership share of more than 10% share (qualified as direct investment) – were basically the same as in 1998. Although transfers of dividends received on equity portfolio investment were 30% up on a year earlier, such transfers still did not exceed 0.15% of GDP. Of the profits earned on non-Hungarian residents' direct investments, the balance-of-payments statistics only include the amount of dividends that have been actually repatriated. The actual dividend transfers on direct investments in 1999 remained unchanged in nominal terms year on year – they fell, however, as a percentage of GDP (from 1.9% to 1.7%). In view of the fact that the balance-of-payments

statistics predominantly contain transfers of incomes produced over the previous year, it can be assumed that better business prospects in the second half of 1999 prompted foreigners to reinvest a larger portion of their incomes earned in 1998 in their Hungarian subsidiaries (see Table VI-4).

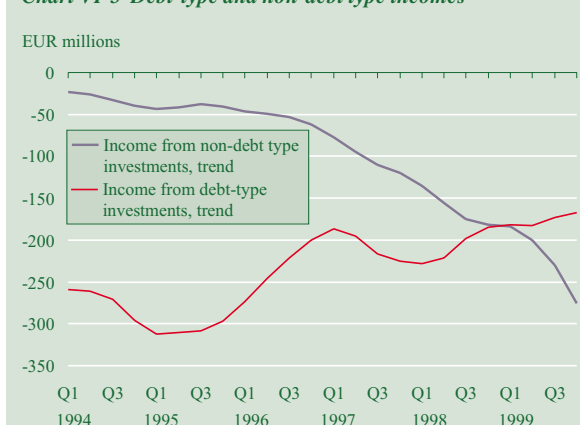
The plunge in the trend of incomes created on non-debt type investment (see Chart VI-5) reflects a restructuring in the balance of payments brought about by an increase in export capacities from the high level of foreign direct investment (EUR 19 billion) and the jump in profitability. The outlook for the future, however, is a flattening out of the trend - a repetition of the one-off rise in income transfers seen in the course of 1998 and 1999 is highly unlikely.

All in all, the annual deterioration in the balance of real economy transactions (affecting services above all, although to a lesser extent than in 1998) was offset by the savings in incomes, thanks especially to lower net interest payments associated with debt. In addition, the nearly EUR 200 million growth on the balance of current transfers was another major contribution to the

Table VI-4 Balance of payments current account

	EUR millions		
	1998	1999	Change
(1) Goods	-2,080	-2,056	24
– Credit (Exports)	18,447	20,519	2,072
– Debit (Imports)	20,527	22,575	2,048
(2) Services	1,591	1,314	-277
– Travel, net	2,141	2,078	-63
– Other services, net	-550	-764	-215
(3) Incomes	-1,662	-1,556	106
– on debt, net	-816	-700	117
– on non-debt, net	-846	-857	-11
(4) Current transfers	130	328	198
Current account (=1+...+4)	-2,020	-1,970	50

Chart VI-5 Debt-type and non-debt type incomes*



* Debt-type income, balance = Interest payments, balance. Non-debt type income, balance = Incomes on direct investment in excess of intercompany loans and income on portfolio investment in securities, balance.

⁶ For a detailed discussion of the topic, see Chapter 4/IV on External demand.

⁷ Balance of real economy transactions = balance of the trade of goods and services. Balance of transfers = balance of incomes and current transfers.

EUR 50 million improvement on current account for the year as a whole.

Unlike in 1998, the current account deficit in 1999 was financed solely by non-debt-type net capital inflows (see Table VI-5).

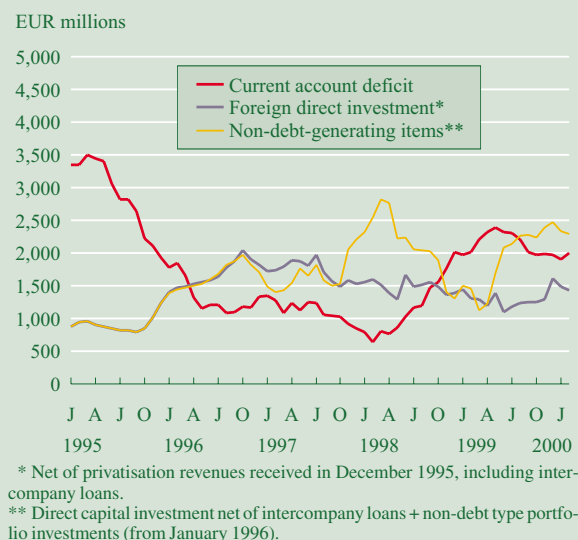
One element of non-debt-creating financing comprises mostly stock-market net equity purchases of for-

eigners, accounted for as portfolio investment. Non-Hungarian residents accounted for 79.2% of equity trade on the Budapest Stock Exchange, up from the 70.9% at the end of 1998, accompanied by a 40% rise in the forint-denominated BUX index. Net equity purchases by foreigners amounted to EUR 1.1 billion, or 2.5% of GDP. This was the source of EUR 250 million in privatisation revenues, via the sales of MATÁV (Hungarian Telecommunications Company) shares to foreign residents in the second quarter. In addition, a further EUR 20 million was raised by the State Privatisation and Holding Company in other equity sales. Looking at net equity investment without privatisation revenues, there is evidence of stronger activity towards the end of the year. The other element of non-debt type financing is qualified as direct investment in equities. Net equity investment is the balance of an in-

Table VI-5 Financing of the current account

	EUR millions		
	1998	1999	Change
(1) Current account deficit	2,020	1,970	-50
(2) Total financing	1,823	2,176	353
– non-debt (=2b.1+2c.1)	1,301	2,474	1,173
– debt (=2a+2b.2+2c.2)	522	-298	-820
(2a) NBH and government (=2a.1+2a.2)	-484	-1,023	-539
(2a.1) Transactions in debt instruments	276	1,219	943
– Of which: government securities	795	601	-194
(2a.2) International reserves	-760	-2,242	-1,482
(2b) Private sector (=2b.1+2b.2)	920	1,587	667
(2b.1) Transactions in equity	453	1,141	688
– Credit institutions	-7	182	189
– Corporate sector	460	959	499
(2b.2) Credit transactions	467	445	-21
– Banking sector	318	116	-202
– Corporate sector	148	329	180
(2c) Direct investment (=2c.1+2c.2)	1,387	1,612	225
(2c.1) Equity capital	848	1,332	485
– in Hungary	1,260	1,567	307
– abroad	-412	-235	177
(2c.2) Intercompany loans	539	280	-259
– in Hungary	555	282	-273
– abroad	-16	-2	14
(3) Capital account	170	31	-139
NEO (=1-2-3)	28	-237	-264

Chart VI-6 Twelve-month deficit of the current account and its financing



Box VI-2

Main characteristics of foreign direct investment in 1999

The year 1999 saw a world-wide intensification of direct investment. The introduction of the euro and the sustained, rapid economic growth in America were accompanied by an upsurge in corporate fusion and acquisitions. Currently available data suggest an increase in the flow of foreign direct investment into countries of Central and Eastern Europe, as well.

Foreign direct investment inflows into Hungary, including intercompany loans, amounted to EUR 1.85 billion, corresponding to 4% of GDP. In nominal terms, this was broadly identical with the figures for 1998, but the weight of intercompany loans was down on a year earlier. Thanks to their increasing profitability, enterprises in foreign ownership were no longer dependant on large-scale funding by their parent companies, and there were also instances of Hungarian subsidiaries becoming net lenders. Furthermore, in 1999 investment activity fell short of the exceptionally high level for the year before, although investment by businesses in foreign ownership still considerably exceeded the national economy average. In the framework of direct investment in 1999 no sales contributing to privatisation revenues took place. This implies that the Hungarian economy is capable of soaking up foreign direct investment on the scale of 4% of GDP, even without revenues from one-off privatisation deals.

In 1999, the European Union accounted for 76.4% of foreign direct investment embodied in equity holdings, that is, shares in ownership. Within the EU, the Netherlands was the largest investor (accounting for 30% of total investment in its own right), with Germany coming in a close second (with 26% of total investment). The most important non-European investor was the United States. By sectoral breakdown, the services sector accounted for over 60% of total foreign investment, worth over USD 1 million, by the foundation or acquisition of Hungarian companies, with the share of manufacturing coming on at around 22%. The share of the construction industry and the energy sector barely reached 1%, and the primary sectors received virtually no foreign capital. In addition, minor deals the sectoral breakdown of which is not yet known contributed 16% of total inflows.

Direct investment abroad by Hungarian resident companies amounted to approximately EUR 240 million, with intercompany loans only accounting for a negligible portion. The reason for the relatively sharp fall from the nearly EUR 430 million in 1998 lies primarily in the smaller volume of such activity undertaken by the Hungarian subsidiaries of foreign companies. Romania was the destination of 24% of direct investment abroad in excess of intercompany loans, and the United States received nearly 17%. As the share of Korea, Poland, Croatia and Slovakia was relatively large, it is no surprise that the EU received hardly 30% of outward direct investment flows. In contrast with capital inflows gravitating towards the services sector, Hungarian companies predominantly invested in manufacturing abroad: looking at the sectoral breakdown of enterprises investing more than 1 million dollars, the manufacturing sector accounted for 60% in 1999. Services accounted for 28% of Hungarian direct investment abroad, while the share of minor deals (with no sectoral classification for the time being) stood at 12%.

flow of EUR 1,567 million and domestic residents' foreign investments worth EUR 235 million, which thus exceeded EUR 1.3 billion (for a detailed discussion of foreign direct investment see *Box VI-2*).

As far as debt-type financing is concerned, the expansion of foreign assets exceeded the growth in foreign debt by roughly EUR 300 million. This was because while the private sector's net foreign borrowing amounted to over EUR 700 million, growth in international reserves outstripped the rise in the National Bank's and the Government's external borrowing by over EUR 1 billion.

The Government's long-dated foreign-exchange-denominated bond issue and the single syndicated loan totalled EUR 2.5 billion for the year as a whole. This exceeded the amount of foreign exchange debt repayments due in 1999 by EUR 800 million, which was justified by the existence of favourable conditions for the prepayment of debt due in 2000. Foreigners' forint-denominated government security purchases were worth net EUR 600 million, and their 8% share in 1998 rose to 11.3%. Incidentally, 70% of capital inflow into government stocks took place in the final quarter. The balance of the net foreign borrowing referred to above and the over EUR 2.2 billion growth in international reserves is a net EUR 1 billion rise in the Government's and the National Bank's claims on foreign residents in 1999.

By contrast, the private sector was a net borrower of roughly EUR 450 million in the framework of portfolio and other investment and of EUR 280 million in the form of intercompany loans. The timing of borrowing transactions by the corporate sector was more or less evenly distributed across the year, in contrast with the

banking sector's stronger borrowing in the second six months. Within private sector debt, the bonds market was of a negligible magnitude, with a total net value of EUR 10 million received through this channel, compared with net direct borrowing worth EUR 435 million.

3 International investment position (IIP)

The foreign assets and liabilities of the economy are embodied partly in non-debt instruments and partly in debt instruments. The sum of the positions at a given date in respect of all claims on non-Hungarian residents gives the net international investment position of the economy. This indicator is of key importance, as its transactions-based change is equal to the current account balance.⁸

Over recent years, the non-debt elements of the international investment position have outstripped the size of the debt element. This was primarily the result of a rapid accumulation of direct investment in equity shares (hereafter called direct equity investments). However, 1999 saw a sharp rise in portfolio equity investments by non-Hungarian residents. It should be noted in reference to the latter that in late 1998 the stock market had just recovered from the slump in the aftermath of the Russian crisis, whereas the upturn in 1999 was uninterrupted

⁸ More correctly, it is equal to the joint balance of the current account and the capital account. The significance of the latter, however, although not negligible, is not considerable relative to the former.

Table VI-6 International investment position: non-debt

	EUR billions		
	Dec. 1998	Dec. 1999	Change
Net non-debt position (=1-2)	-14.6	-19.1	-4.5
(1) Foreign assets (=1a+1b)	1.1	1.4	0.4
(1a) Direct equity investment abroad	1.0	1.4	0.4
(1b) Portfolio equity investment abroad	0.1	0.1	0.0
(2) Foreign liabilities (=2a+2b)	15.7	20.5	4.8
(2a) Direct equity investment in Hungary	13.7	16.2	2.5
(2b) Portfolio equity investment in Hungary	2.0	4.3	2.3

over the entire length of the year, especially gathering momentum at the year-end. Thus, the substantial rise in this level was at least as much due to the rise in stock market prices as to net capital inflow.

The non-debt international investment position displayed a net increase in debt of EUR 4.5 billion (see Table VI-6). Nevertheless, this figure can be regarded as being favourable, as the increases of EUR 2.5 billion and EUR 2.3 billion in direct and portfolio equity investment, respectively, were equally beneficial to the economy. By contrast, direct equity investment by Hungarian companies abroad rose by only EUR 0.4 billion in the course of 1999, and the level of portfolio equity investment remained virtually unchanged.

For an economy (such as Hungary's) set on the path of catching up with more advanced economies, the above phenomenon is natural, since Hungarian investors do not yet hold sufficient capital to offset foreign residents' direct or portfolio equity investments in Hungary by similar investments abroad. Thus, in late 1999, compared with non-debt foreign liabilities (i.e. non-Hungarian residents' direct and portfolio equity invest-

ments in Hungary) worth EUR 20.5 billion, the value of non-debt assets (Hungarian residents' direct investment and portfolio equity investment abroad) stood at EUR 1.4 billion, in other words, net foreign direct investment and portfolio equity investment was nearly EUR 20 billion, up from less than EUR 15 billion in 1998. The implication of such a magnitude is that non-debt net liabilities can also entail considerable burdens, manifest in net income transfers. In 1999, net foreign income transfers on non-debt liabilities amounted to 3.3% of the value of goods and services exports, higher than the comparable indicator on net interest payments on debt liabilities (2.7%).

There was only a minor change in the net external position embodied in debt instruments, from EUR -11 billion to EUR -11.2 billion (see Table VI-7). The negligible change in the position was the result of nearly identical increases in assets and liabilities. A major part of this growth cannot be linked to transactions, but reflects a change in stock due to cross exchange rate or price changes, accounting rules and other causes. Apart from these, the growth in international reserves on the assets side is remarkable (up from EUR 8 billion to nearly 11 billion in the course of 1999), which was partly deliberate (thanks to good borrowing terms in 1999, it was possible to bring forward the servicing of debt due in 2000), but the autonomous component, i.e. the foreign exchange acquisitions of the central bank on the Hungarian interbank market via net capital inflows, was also high (see Box VI-3).

The EUR 1 billion increase in portfolio claims on foreigners was primarily due to the modified accounting of financial derivatives (from 1999, the net approach was replaced by an approximation of the gross ap-

Box VI-3

Changes in foreign exchange reserves in 1999

The size of foreign exchange reserves in 1999 moved in the range of EUR 7.9 and 10.9 billion, compared with EUR 7.6 and 9.2 billion the year before. The annual average was EUR 9.1 billion, considerably outstripping the EUR 8.3 billion figure for 1998. The rate of sub-annual growth was also significantly different from that for the previous year. After the global economic shocks subsided, the level of foreign exchange reserves started on a slightly downward path over the first half of the year, until eventually stabilising. From the second half, reserves started to grow slowly, reaching EUR 10.9 billion at the end of December 1999.

In terms of money flows, the main items that pushed up the level of reserves were public sector borrowing worth approximately EUR 2.5 billion and stronger passive intervention in the second half of the year, while the main items exerting downward pressure included the repayment of the principal by the National Bank and the Government, with a combined value of EUR 1.7 billion, the decrease in commercial banks' central bank deposits and the balance of foreign exchange interest payments. Reserves were also influenced by cross rate effects exerting slight upward pressure (non-euro-denominated components represented a larger value in euro terms, due to the weakening of the euro's exchange rate during the year).

Another positive development in addition to the rise in the level of the reserves was the significant improvement in their internal structure. The proportion of short-term credit (basically deposits withdrawn from domestic commercial banks) fell from 19.1% to 10.2%.

proach), while the EUR 1.5 billion increase in other assets was the result of the larger deposit holdings of the corporate and the banking sectors abroad, and the rise in assets associated with commercial deals. Although intercompany loans extended abroad by Hungarian resident firms increased considerably during the year, they turned down at the end of the year, thus, their level remained basically unchanged in volume terms (rising by EUR 0.1 billion).

The EUR 2.8 billion increase in other liabilities on the liabilities side was primarily brought about by corporate and banking sector transactions, with direct corporate borrowing abroad accounting for the bulk of this growth. The rise in portfolio liabilities reflects the strong foreign borrowing undertaken by the State Debt Management Agency in 1999, discussed in more detail in the following section. Of the EUR 2.2 billion increase, 0.6 billion is accounted for by the rise in the stock of foreign residents' government security holdings. The stock of intercompany loans was on a downward trend for most of the year, although it was somewhat mitigated by cross rate changes. Nonetheless, in the final part of the year, the inflow of intercompany loans intensified, resulting in a significant EUR 0.7 billion rise in value.

Foreign debt does not contain intercompany loans, included within the category of direct investment, nor foreigners' forint-denominated government security holdings, in view of the fact that they are typically governed by different considerations than other debt elements, and their risk profile is different as well. With these elements excluded from the group of debt instruments, the national economy's net foreign debt fell to EUR 6.8 billion at end-1999 from EUR 7.9 billion at end-1998. Although gross foreign debt increased from EUR 20.1 billion to EUR 24.4 billion at the end of 1999 year on year, this had to do in large part with the above-noted prefinancing (roughly EUR 800 million), as well as cross rate changes over the year, showing non-euro denominated debt elements to be higher in euro terms, as a result of the weakening common currency. Since the mid-1990s, debt by sectoral breakdown has become less and less dominated by the National Bank and the Government, with this restructuring also continuing in 1999 (see Table VI-8).

The share of the National Bank and the Government in gross foreign debt fell below 55%. The fall in their share in net foreign debt was even steeper, to under 18%. It was a remarkable development that as a result of an earlier policy change on foreign debt, the central bank had become a net foreign lender by late 1999. The sharp rise reported in Table VI-8 in the foreign debt of the new sovereign borrower, the Government, should be evaluated with this fact in mind.

At the level of the national economy, the ratio of short- and long-term foreign assets and liabilities remained virtually the same. Due to the high weighting of international reserves, the assets category was dominated by short-term items (with a weight of 87.6%), while they were represented in a smaller percentage (17.4%) within liabilities. Short-term liabilities were predominantly held by the private sector.

Table VI-7 International investment position: debt

	EUR billions		
	Dec. 1998	Dec. 1999	Change
Net debt position (=1-2)	-11.0	-11.2	-0.2
(1) Foreign assets (=1a+...+1d)	12.3	17.8	5.5
(1a) Intercompany loans abroad	0.1	0.2	0.1
(1b) Portfolio assets	0.2	1.2	1.0
(1c) Other assets	4.1	5.6	1.5
(1d) International reserves	8.0	10.9	2.9
(2) Foreign liabilities (=2a+...+2c)	23.4	29.0	5.6
(2a) Intercompany loans in Hungary	2.2	2.9	0.7
(2b) Portfolio liabilities	10.5	12.6	2.2
(2b.1) Of which: government securities	1.1	1.7	0.6
(2c) Other liabilities	10.7	13.5	2.8
SUPPLEMENTARY DATA			
Gross foreign debt* (=2-2a-2b.1)	20.1	24.4	4.3
Net foreign debt* (=2-2a-2b.1-1a)	7.9	6.8	-1.1

* Net of intercompany loans and government securities.

Table VI-8 Composition of foreign debt* by main debtors

	Dec. 1998		Dec. 1999		Change	
	EUR billions	Per cent	EUR billions	Per cent	EUR billions	Per cent
(1) Gross foreign debt (=1a+1b)	20.1	100.0	24.4	100.0	4.3	21.4
(1a) NBH and Government	11.3	56.0	13.4	54.9	2.2	19.1
- NBH	10.0	49.7	9.8	40.0	-0.2	-2.5
- Government	1.3	6.3	3.7	15.0	2.4	190.6
(1b) Private sector	8.9	44.0	11.0	45.1	2.1	24.2
- Credit institutions	4.7	23.3	5.5	22.6	0.8	18.0
- Corporate sector	4.2	20.8	5.5	22.4	1.3	31.2
(2) Net foreign debt (=2a+2b)	7.9	100.0	6.8	100.0	-1.1	-13.6
(2a) NBH and Government	2.8	35.5	1.2	17.9	-1.6	-56.6
- NBH	2.0	25.1	-2.0	-29.1	-4.0	-200.3
- Government	0.8	10.5	3.2	46.9	2.4	286.7
(2b) Private sector	5.1	64.5	5.6	82.1	0.5	10.0
- Credit institutions	1.9	23.5	2.0	28.8	0.1	6.0
- Corporate sector	3.2	41.0	3.6	53.3	0.4	12.4

* Net of intercompany loans and government securities.

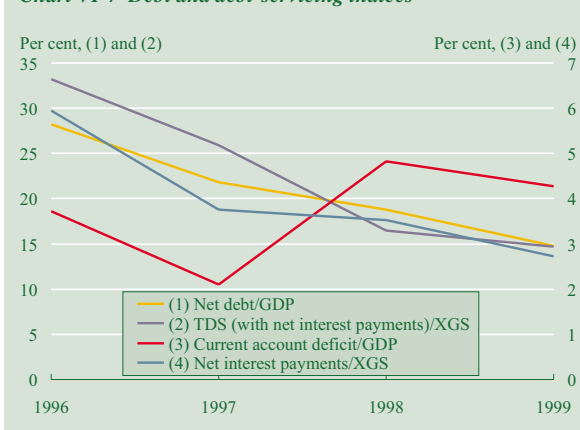
Changes in foreign debt and debt-servicing indices (presented in *Table VI-9*) provide a good illustration of the duality stemming from the increase in gross debt and the decrease in net debt. While gross external debt rose from 48.1% year on year to 53% at end-1999, as a percentage of GDP, and from 84.8% to 94.5%, as a proportion of goods and services exports, net external debt fell from 18.8% to 14.8% relative to GDP, and from 33.2% to 26.3%, relative to the export level of goods and services. All the other derived indices reflect improvement, with interest payments falling considerably, as noted in the section on the current account of the balance of payments. Total debt servicing indices (TDS-1 and TDS-2) were also substantially better, hand in hand with the rise from 4.7 months at end-1998 to 5.8 months in the period of time during which international reserves provide coverage for goods imports.

*Table VI-9 Debt and debt-service indicators**

	Per cent			
	1996	1997	1998	1999
Gross external debt/GDP	58.0	49.6	48.1	53.0
Net external debt/GDP	28.2	21.8	18.8	14.8
Current account balance/GDP	-3.7	-2.1	-4.8	-4.3
Gross external debt/XGS	130.0	89.3	84.8	94.5
Net external debt/XGS	63.2	39.3	33.2	26.3
Gross interest payments/XGS	11.6	8.9	7.4	5.3
Net interest payments/XGS	5.9	3.8	3.5	2.7
TDS-1/GDP	17.4	17.2	11.5	9.7
TDS-2/GDP	14.8	14.4	9.3	8.3
TDS-1/XGS	38.9	31.1	20.4	17.3
TDS-2/XGS	33.2	25.9	16.5	14.7
Goods import coverage of international reserves (months)	7.0	4.8	4.7	5.8

* Referring to foreign debt excluding non-Hungarian residents' government security holdings and intercompany loans.
XGS: exports of goods and services.
TDS-1: repayment of medium and long-term loans with gross interest payments, excluding prepayments.
TDS-2: repayment of medium and long-term loans with net interest payments, excluding prepayments.

Chart VI-7 Debt and debt-servicing indices



3.1 The borrowing policy of the state

The identity of the Hungarian sovereign borrower has changed as of January 1, 1999, with the Republic of Hungary taking charge of the refinancing of maturing foreign exchange debt from the National Bank. The management of the public sector's external debt is now the responsibility of the Ministry of Finance and the State Debt Management Agency, under the supervision of the former, with the National Bank participating as the agent of the state.

One of the key objectives of 1999 was the smooth initiation of the new borrower into the capital markets, with particular regard to the euro market, which bears strategic importance in the area of debt management. Having learnt from the lessons of the global crises in preceding years, the sovereign issuer gave high priority to the maintenance of liquidity and adequate reserves essential for debt management, thereby consciously reducing renewal risk.

In recognition of the Hungary's improving macro-economic indicators, several international rating agencies upgraded Hungary's risk rating: in June 1999, Moody's Investors Service changed the former Baa2 rating to Baa1, in October, FitchIBCA and, in November, the Japan Credit Rating Agency upgraded Hungary's sovereign rating to BBB+ (plus) and A- (minus), respectively. Thanks to the steady improvement in credit rating since 1996 and the investors' stronger interest in converging countries, the sovereign borrower was able to achieve a much better interest rate spread than suggested by Hungary's credit rating. The secondary bond market has been much more at the level of the stable 'A' sector (including Slovenia, Israel, Cyprus, etc.), than that of the 'BBB' spread.

In the course of 1999, altogether there were four autonomous bond issues, as well as one syndicated loan. Funds worth USD 2.55 billion acquired via this channel served the refinancing of debt worth USD 1.8 billion, maturing in 1999, and prepayment of debt due to mature in 2000 Q1.

Specific transactions took place in the following order: In January 1999, the state, as the first Central European participant in the euro market, issued ten-year bonds worth EUR 500 million. This was followed in April by a seven-year global bond issue with a value of USD 500 million, raised by a further USD 250 million in May. In June, there was another issue of euro bonds with a term of five years amounting to EUR 500 million. By timing the fixed interest bond issues over the first half of the year the historical low of international interest rates could be taken advantage of. In the wake of these issues, a Hungarian sovereign yield curve was established, functioning as a kind of Central European reference.

In the course of arrangements made for a syndicated loan in July and August, the transaction's original value of EUR 300 million was successfully raised to EUR 400 million, thanks to massive oversubscription.

Although the upward trend in European and American interest rate expectations prevalent from the second half of the year and investor concerns over Y2K pre-

vented another issue of fixed interest benchmark bonds, at the proposal of the Bank, the state marketed floating rate bonds for the purpose of replenishing foreign exchange reserves worth EUR 300 million, raised by EUR 100 million as early as November, in response to its major market success (for detailed conditions of the transactions, *see Table VI-10*).

Table 10 External borrowing by the state in 1999

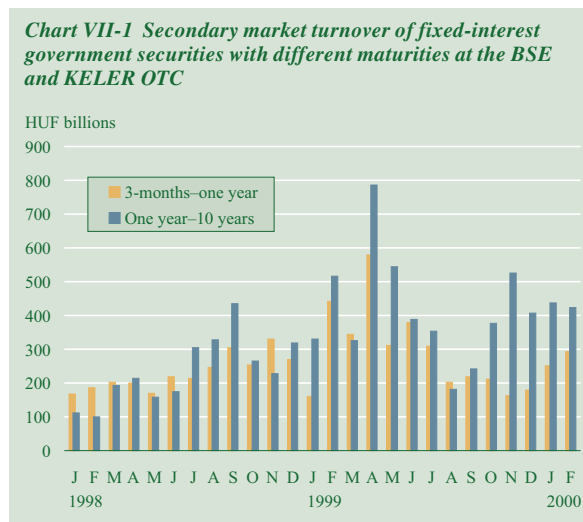
Amount	Value date	Maturity	Coupon	Participants	Reoffer spread	=EURIBOR+
EUR 500 million	02.16.1999	02.16.2009	4.375%	DG Bank/JP Morgan	Bund+87 bp	51 bp
USD 500 million	04.19.1999	04.19.2006	6.50%	ABM Amro/Salomon S.B.	Treasury+145 bp	75 bp
USD 250 million	05.10.1999	04.19.2006	6.50%	ABM Amro/Salomon S.B.	Treasury+135 bp	70 bp
EUR 500 million	06.21.1999	06.02.2004	4.25%	CSFB/Deutsche Bank	BTAN+71 bp	51 bp
EUR 400 million	09.27.1999	09.10.2004	EURIBOR+0.375%	ABN/CIB/Commerzbank/West LB	Syndicated loan	
EUR 300 million	11.10.1999	11.10.2005	EURIBOR+0.50%	Bayerische LB/Chase	EURIBOR+54 bp	54 bp
EUR 100 million	11.10.1999	11.10.2005	EURIBOR+0.50%	Bayerische LB/Chase	EURIBOR+52 bp	52 bp

VII. Capital markets

1 Government bond market

Trade in government securities on the secondary market was strong again in 1999. Information on turnover in secondary markets can be found in the business records of the Budapest Stock Exchange (BSE) and the KELER OTC market. Transactions on these two segments of the secondary market (in terms of single-entry accounting) indicate a sharp rise in trade for 1999 as a whole, relative to the previous year. The value of government securities traded on the stock exchange amounted to HUF 4,534 billion, up by 30% on 1998. Turnover in government bonds, accounting for about 72% of total stock market transactions in government securities, was of a similar proportion to that seen in 1998. The robust growth in government bond transactions is partly attributable to foreign investors. According to KELER's statistics, trade in government securities carried out in the accounting system of KELER OTC, approached HUF 9,100 billion, up by over 300% on a year earlier. Trade in government bonds accounted for 70% of total turnover, down by 4 percentage points on the rate for 1998.

According to data compiled by KELER, non-domestic residents' government security holdings at the end of December 1999 were worth HUF 438.9



billion, up by HUF 141 billion on the figure for end-1998.

The first major increase in turnover occurred in the months of April and May, primarily due to stronger purchasing intentions on the part of domestic investors. From October the secondary market saw a renewal of interest by foreign investors, causing their government bond holdings to expand at a fast pace over the final month of the year (see Table VII-1; Chart VII-1).

Table VII-1 Stock of government securities
(As a percentage of GDP)

	Per cent				
	1995	1996	1997	1998	1999
Stock of government securities as a percentage of GDP	30.5	36.2	31.6	32.5	34.8
Government bonds	22.0	26.1	20.9	22.4	22.9
Of which:					
marketable	8.5	10.7	12.2	13.3	15.6
consolidation	6.1	5.2	3.1	2.6	2.2
other special issues	7.4	10.2	5.6	6.5	5.1
Treasury bills	8.6	10.1	10.7	10.1	11.9
Of which:					
discount bills	7.2	8.3	7.8	6.7	7.4
other T-bills	1.4	1.8	2.9	3.4	4.5
Share of government securities in the turnover of the Budapest Stock Exchange (BSE)	62.5	54.5	56.1	49.6	54.1

2 Equity market

As in previous years, the international financial environment and fluctuations in the risk premium governed by Hungary's changing relative perception were basic factors influencing the course of equity market trade in 1999. This is a common characteristic of all emerging capital markets. The volatility of the risk premium proved to be much stronger than fluctuations in corporate profit expectations or risk-free interest rates. Accordingly, prices in the emerging countries' capital markets, including the BSE, tended to be considerably more volatile than in more advanced capital markets, and were predominantly governed by the level of country-specific risk premium.

Strategic companies in foreign ownership, funded by FDI inflows, have played a key role in the modernisation of the Hungarian corporate sector. As a consequence, the BSE provides a distorted and imperfect projection of the Hungarian corporate sector, as the fluctuations in the country-specific premium may become significantly removed from the profit expectations of listed companies. The BSE involves a rather high market-specific risk that cannot be reduced by domestic diversification, and the news, business reports and analysts' profit forecasts often convey only minimal information on prospective price changes (see Table VII-2).

In early 1999, trade at the Budapest Stock Exchange was burdened by capital market worries about the balance of payments. Prices were gradually ebbing during the spring, and the decline in turnover signalled dwindling interest on behalf of investors.

By early summer it had become clear that the concerns about the external balance and fiscal position were unfounded. As a result of the improvement in the perception of the Hungarian macroeconomic situation, and in spite of the rise in the emerging market risk premium, there was a significant inflow of foreign capital, along with a considerable rise in the index.

In the course of September, despite the improved general perception of emerging economies and mainly on account of the political attacks on the central bank, there was a rise in Hungary's country-specific risk premium, which materialised in a portfolio outflow and a significant drop in stock prices.

Thanks to the favourable macroeconomic situation and the optimistic attitude of international capital markets and in spite of the worries about the Y2K date change, the final months of 1999 witnessed a marked rise in the index, taking the BSE price level back to that existing prior to the Russian crisis (see Chart VII-2).

Except for a phase of political uncertainty early in the autumn, domestic investors tended to be net sellers throughout the year. The two largest sectors of shareholders are the state and households. The state conducted several major privatisation deals, selling off minority State Holding and Privatisation Company equity packages held in listed firms, which accounted for the bulk of privatisation receipts for 1999. Households also tended to be continuous sellers. Apparently, the privatisation share issues conducted with substantial discounts pushed the stock exchange exposure of individual investors beyond a level regarded as being optimal in light of their total wealth and risk preferences.

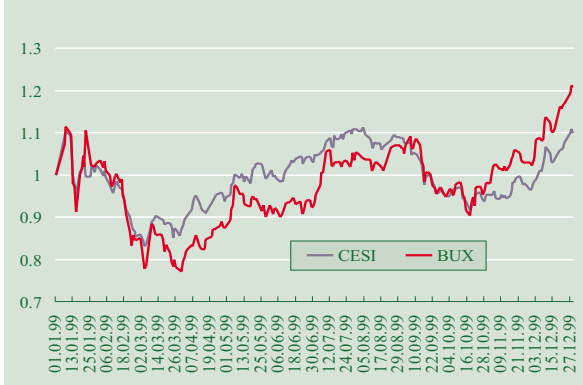
Correction for the low price level caused by the Russian crisis in 1999 enabled a profit to be made on the sales of shares purchased in the course of the 1996/97 privatisation issues, causing households to rearrange their portfolios in accordance with their risk-taking ability. It should be noted that the Russian crisis was the first stock market crash in Hungary where individual investors suffered major, although mostly unrealised, losses, which were significant even at the level of the whole economy, and as a logical consequence, this reshuffled stock market expectations. In addition to changes in profit expectations, individual investor confidence in the stock market system of institutions was also undermined by a series of abuse and criminal cases, involving customers' funds, committed by investment brokers. These factors prompted households to "bail out" of the stock market, causing their share in capitalisation to plunge to half the original level over the period from June 1998 to December 1999.

As a result of the massive sales by domestic shareholders, the ratio of foreign investors has jumped to 80%. The shares held by the state are expected to remain predominantly in the possession of the state. Mainly on account of the peculiarities of the ownership structure, privately owned domestic companies are unlikely to make significant equity issues. The implication is, that in the absence of further initial privatisation issues (which is possible in respect of Malév Hungarian Airlines or MVM), the portfolio inflow into shares will be smaller by an order of magnitude than that seen in the preceding years.

Table VII-2 Equity market

	1995	1996	1997	1998	1999
Turnover in equities (single-entry accounting, as a percentage of GDP)	0.8	3.6	16.8	34.0	29.4
Number of transactions (thousands)	60.8	153.9	478.2	1,011.5	1,461.5
Average daily number of transactions	244.4	620.7	1,936.2	4,090.7	5,845.9
Average daily turnover (singly-entry, HUF millions)	175.3	988.9	5,815.2	13,952.8	13,725.3
Average amount per transaction (HUF millions)	0.7	1.6	3	3.4	2.3
Equity capitalisation at the end of the period as a percentage of GDP	5.8	12.4	35.8	29.7	35.5

Chart VII-2 BUX in USD and the CESI, (December 30, 1998 = 1.00)



3 Derivative markets

Derivative markets experienced a less hectic period in 1999 compared with the preceding one and a half years. There were no major changes in the structure of the market, with the three markets which are significant at the macroeconomic level comprising the futures BUX index market, the euro and dollar forward exchange markets and the derivative foreign exchange markets off the stock exchange. Activity in interest rate options markets continued to be languid despite the fact that the Budapest Stock Exchange had enabled standardised futures trading in government securities. The standardised options market (European contracts for the BUX and American contracts for three individual shares), which was launched in February 2000 after several attempts, also failed to spur growth.

3.1 BUX futures market at the BSE

Compared with the period prior to the Asian and the Russian crises, investors' attitude to the BUX futures market seems to have changed. Although the spot index reached and even exceeded the peak rate seen before the crisis, investors showed a degree of caution throughout 1999. This was also reflected in the index futures prices. The implied interest rate fell from 15% early in the year to between 5 and 10%. At the beginning of 2000, the implied interest rate of the December delivery product was fluctuating at around 5–6%. This has brought the implied rate down to largely track the decline in the level of interest rates.

Chart VII-3, showing the BUX futures premium, i.e. the portion of the implied rate over the risk-free rate,¹ indicates that the premium remained negative nearly throughout the year. This was due to low expectations of a prospective increase in spot prices, in other words, only a few speculators were willing to enter into futures purchase contracts at a higher price. Instead, what many market participants appeared to be afraid of was low prospective spot prices, and in order to obtain hedging against a depreciation of their share holdings, they offered futures contracts to sell. The latter group is dominated by institutional investors, which hold equities in their portfolios at all costs.

¹ The premia are calculated on the basis of three-month government security yields. This is not completely precise as the implied rates on fixed-maturity futures contracts refer to remaining times to maturity which are sometimes longer than 3 months and sometimes shorter than 3 months. Nevertheless, the distortion is negligible, as the difference between the yields on three-month and one-year government securities never exceeded one-half a percentage point in the course of 1999, generally staying well below that rate. To mitigate the distortion, values for the final two months on the December 1999 maturity are not plotted on the chart.

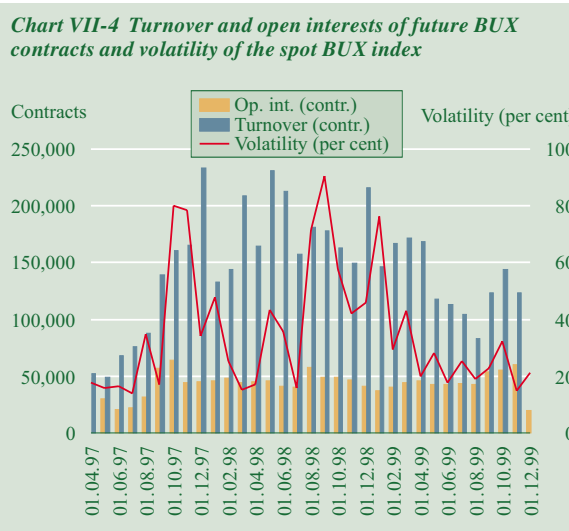
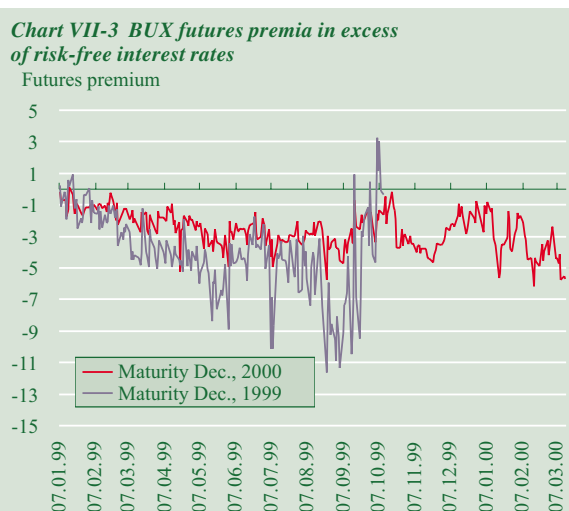


Chart VII-4, showing the turnover and the open interest on the BUX futures market together with the volatility of the spot index, illustrates that in 1999 the volatility of the index dropped to half of what it had been in 1998. The volume of contracts remained stable during 1999 (with the lower level in December being only temporary and of a technical nature due to the fact that the expiring maturity of a large volume was not renewed after 16th December until the final trading day, but only in 2000). However, turnover was lower than in 1998, thanks to a more balanced market environment.

3.2 Forward-exchange markets

Turnover in the forward foreign-exchange markets in 1999 failed to reach the all-time peak achieved the year before. The weaker capital inflow and banks' attempt to hold neutral foreign exchange positions tended to dampen forward dealing in the foreign-exchange markets. As demonstrated in some of the Bank's previous publications, the buoyant activity in 1998 was largely

due to hedging contracts that were not genuine as the banks had made them with their own brokers. This is why it is not expedient to choose 1998 as a base period. The other determinant of forward-exchange trading is the management of the exchange rate risk still existing alongside the current exchange rate regime. Accord-

ingly, the currency composition of exchange contracts reflects the composition of the forint's official basket. Although the euro replaced the German mark in 1999, the dollar retained its 30% share (it was only in 2000 that the euro became the exclusive constituent of the basket). As a consequence, as the year advanced the German mark was gradually forced into the background against the euro in foreign-exchange markets.

Chart VII-5 shows that the volatility of the basket subsided markedly in the second half of the year, and yet towards the end of the year turnover exceeded the level seen at the beginning of the year. Although also increasing late in the year, the volume of contracts did not reach the numbers seen early in the year.

3.3 Over-the-counter (inter-bank) market activity off the stock exchange

Inter-bank OTC derivative markets play a key role in the risk management undertaken by banks. *Table VII-3* presents the existing volume of contracts in nominal

Chart VII-5 Volatility, turnover and open interests of the official HUF basket, DEM, EUR and USD

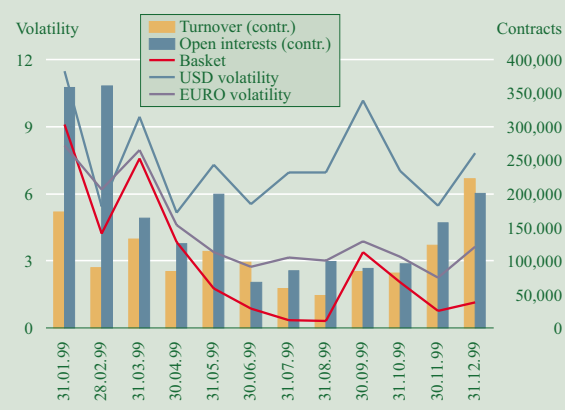


Table VII-3 Derivative positions of the banking system at end-December 1998 and 1999

December 31, 1998 Contract type and risk weighting	Liabilities and assets									
	<3 months	Per cent	3 month-1 year	Per cent	1-2 years	Per cent	Over 2 years	Per cent	Total	Per cent
100%	177,417	15.9	215,596	31.7	50,748	31.5	20,050	8.7	463,811	21.2
Interest rate contracts	852		2,066		35,520		18,704		57,142	2.6
Foreign exchange contracts	152,002		209,585		15,228		1,346		378,161	17.3
Forwards on securities	24,563		3,440		0		0		28,003	1.3
Index futures and forwards	0		505		0		0		505	0.0
50%	3,270	0.3	0	0.0	0	0.0	0	0.0	3,270	0.1
Interest rate contracts	0		0		0		0		0	0.0
Foreign exchange contracts	3,270		0		0		0		3,270	0.1
Forwards on securities	0		0		0		0		0	0.0
Index futures and forwards	0		0		0		0		0	0.0
20%	844,915	75.6	408,867	60.0	103,461	64.1	209,123	91.2	1,566,366	71.6
Interest rate contracts	1,526		18,462		95,393		162,067		277,448	12.7
Foreign exchange contracts	843,389		390,405		8,068		47,056		1,288,918	58.9
Forwards on securities	0		0		0		0		0	0.0
Index futures and forwards	0		0		0		0		0	0.0
0%	91,355	8.2	56,484	8.3	7,146	4.4	26	0.0	155,011	7.1
Interest rate contracts	20,723		4,308		46		26		25,103	1.1
Foreign exchange contracts	58,273		51,749		6,478		0		116,500	5.3
Forwards on securities	12,359		427		622		0		13,408	0.6
Index futures and forwards	0		0		0		0		0	0.0
Total	1,116,957	100.0	680,947	100.0	161,355	100.0	229,199	100.0	2,188,458	100.0
December 31, 1999										
100%	252,778	43.4	327,771	37.6	139,681	50.6	57,870	20.4	778,100	38.6
Interest rate contracts	273		6,232		34,108		49,272		89,885	4.5
Foreign exchange contracts	200,057		319,759		105,573		8,598		633,987	31.5
Forwards on securities	52,448		1,780		0		0		54,228	2.7
Index futures and forwards	0		0		0		0		0	0.0
50%	7,587	1.3	2,523	0.3	0	0.0	0	0.0	10,110	0.5
Interest rate contracts	0		0		0		0		0	0.0
Foreign exchange contracts	7,587		2,523		0		0		10,110	0.5
Forwards on securities	0		0		0		0		0	0.0
Index futures and forwards	0		0		0		0		0	0.0
20%	245,335	42.2	484,821	55.6	120,130	43.5	222,681	78.4	1,072,967	53.3
Interest rate contracts	38,075		25,605		24,088		170,290		258,058	12.8
Foreign exchange contracts	207,211		459,216		96,042		52,391		814,860	40.5
Forwards on securities	49		0		0		0		49	0.0
Index futures and forwards	0		0		0		0		0	0.0
0%	76,270	13.1	56,444	6.5	16,372	5.9	3,485	1.2	152,571	7.6
Interest rate contracts	0		308		541		1,698		2,547	0.1
Foreign exchange contracts	52,140		54,998		15,831		1,787		124,756	6.2
Forwards on securities	24,130		1,138		0		0		25,268	1.3
Index futures and forwards	0		0		0		0		0	0.0
Total	581,970	100.0	871,559	100.0	276,183	100.0	284,036	100.0	2,013,748	100.0

terms. On the whole, the volume of contracts shrank slightly (from HUF 2,333 billion to HUF 2,063 billion, which is even lower in real terms, taking inflation into account), together with a considerable change in the composition of contracts. Similar to previous years, the largest portion, roughly 53%, involved contracts with a risk weighting of 20% (signed with clients from OECD countries, including domestic banks) compared with a proportion of 72% in 1998. The share of contracts with a risk weighting of 100% (signed with corporate and other non-bank clients, including non-OECD-based banks) has risen from 21% at the end of the previous year to 39% by end-1999. The implication is that the corporate sector is increasingly applying up-to-date risk management techniques. The proportion of exchange contracts with zero risk weighting remained basically the same (perhaps declining somewhat). This is consistent with the subdued currency exchange activity seen during the year.

In accordance with international experience, maturities continued to remain shorter than one year, dominated by a higher proportion of contracts with three-month to one-year terms to maturity. In contrast to 1998, when this was only true of contracts signed with companies, in 1999 this became a characteristic of inter-bank contracts as well. By type of contract, foreign exchange deals continued to account for the highest percentage. The increasing share of contracts with companies was concentrated in the growth of foreign exchange deals. The relative decline in inter-bank contracts reflected the relative fall in the volume of foreign exchange contracts, which, in turn, accounts for the relative increase in the proportion of interest rate instruments.

Chart VII-6 illustrates one dimension of the monthly series identical to the summary information presented in *Table VII-3*. Clearly, contracts with corporate clients (with a 100% risk weighting) expanded steadily over the year until November, before declining slightly in December. Nevertheless, the table showing the situation early and late in the year provides a basically adequate picture of the trend during the year.

Chart VII-7 presents a monthly breakdown of the amount of derivative currency trade by banks, in relation to the size of their foreign exchange assets and liabilities. The sum of all foreign exchange assets and liabilities are plotted next to the nominal value of total derivative contracts (on and off the stock exchange), regardless of whether they represent assets or liabilities (this procedure is not meaningful in economic terms, its only purpose being the comparison of the orders of magnitude).

It is clear that derivative market activity by the banks began to decline in the wake of the Asian crisis, and that this decline lasted until the year-end. However, the sec-

Chart VII-6 Breakdown of partner risk in the banking system's total derivative contracts denominated in foreign exchange in 1999

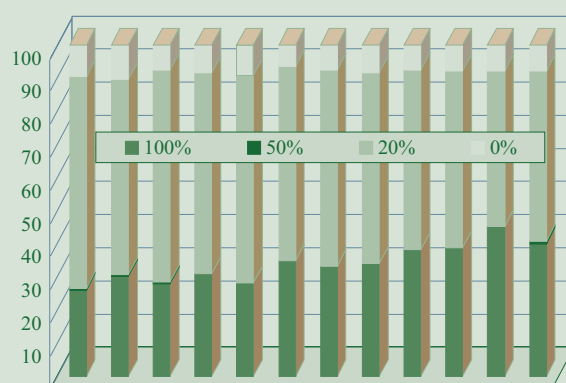
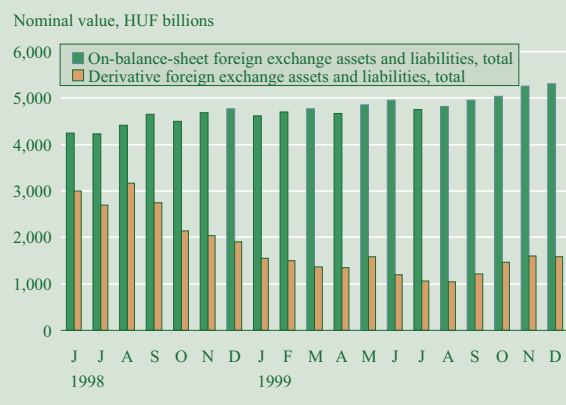


Chart VII-7 Banks' on-balance-sheet and derivative contracts denominated in foreign exchange between June 1998 and December 1999

(Sum of assets and liabilities)



ond half of the year saw a rise in the amount of total derivative contracts, along with increasing on-balance-sheet activity. Trade in interest rate products remained subdued relative to the amount of on-balance-sheet items.

4 Institutional investors²

Hungarian institutional investors appear to have come of age over the course of the past three years. Despite the freeze imposed on contributions to private pension funds, the national economic importance of as-

² The Hungarian Financial Supervisory Authority is only able to process reports from pension funds with a substantial delay (about six months). Therefore, data on pension funds are available only until the third quarter, and those on the final quarter are estimates.

sets managed by institutions has been growing steadily (see Chart VII-8). The Russian crisis did not cause a long interruption in the confidence placed in Hungarian institutions, and after a transitory phase of uncertainty in the autumn of 1998, households returned to entrusting their savings to the care of institutional investors in 1999.

Chart VII-8 Assets managed by institutional investors as a percentage of trend GDP

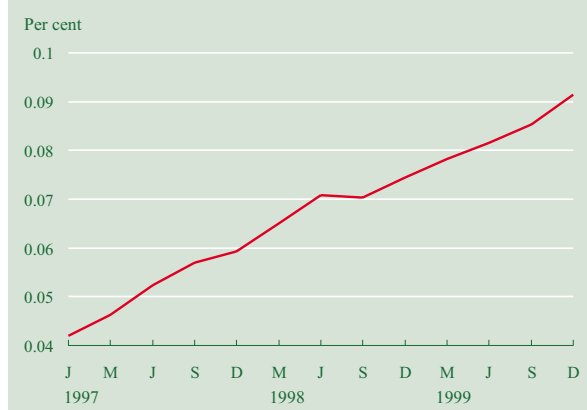


Chart VII-9 Investment fund index

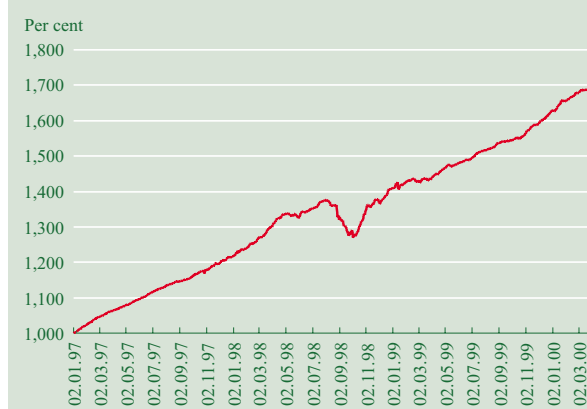
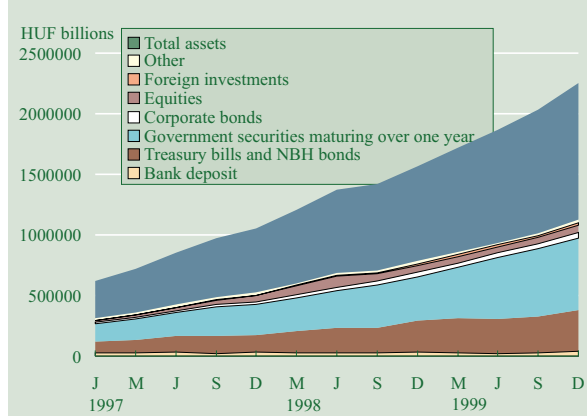


Chart VII-10 Portfolios of institutional investors



In terms of institutional investors, it is primarily open-end funds whose capital inflow appears to be the most vulnerable to households' expectations of capital market developments. By contrast, savings flowing into pension funds and insurance companies are governed by long-term contracts, which only depend on expectations of returns to a negligible degree. Private pension funds are partly compulsory, while insurance companies offer additional services besides portfolio management. It is a characteristic feature of both types of institutions that investors are notified of the level of returns only on a quarterly or yearly basis, and the relevant taxation regulations are considerably more favourable than in the case of other savings facilities.

By contrast, open-end investment funds primarily manage households' discretionary medium-term savings. The shorter time horizon and the element of choice involved in the savings decision as well as the transparency of returns owing to the daily registration of asset values make the inflow of funds into investment trusts more dependant on expectations of capital market movements. Not surprisingly, the inflow of funds into open-end investment companies began to gather pace from November, in contrast with the outflow seen at the end of the summer. Open-end investment funds represent an advanced facility for the management of household savings both in respect of flexibility and low transaction costs. Therefore, they are likely to become an increasingly popular choice if no extraordinary events disrupt the operation of capital markets.

As of yet there are no universally accepted benchmarks for the evaluation of investment fund performance. The Bank has constructed an index to gauge the aggregate business performance of investment funds, which measures the weighted average of the ten funds handling the largest asset values (see Chart VII-9).

The asset management of institutional investors is still characterised by an extremely high degree of risk aversion. The greater and increasing portion of their portfolios consists of government securities and bank deposits (see Chart VII-10). The proportion of both domestic shares and foreign investments is an order of magnitude lower than internationally accepted portfolio management norms.

Risk aversion in investor behaviour is only the result of regulatory constraint to a certain extent, although strict regulations also play a part in respect of investment abroad.³ In respect of insurance companies, it is frequently the foreign owner's conservative business ap-

³ Although foreign investment by institutions is liberalised in principle, the repatriation obligation on securities puts tremendous upward pressure on the transaction costs of foreign investments, in addition to the enormous administrative burdens imposed on fund managers.

proach that is the underlying factor. In the case of pension funds, the evaluation of investors' interests on an overly short time horizon may lead to distortions.

As noted above, open-end funds are discretionary investment alternatives. For the great majority of Hungarian households their role is not significant enough to incur major risk over the short time horizon. In respect of households' portfolio decisions, investment funds can be considered as being the substitutes of time deposits or direct Treasury bill holdings rather than of stock market investment. Furthermore, it seems likely that because of their lower risk-taking ability, households' risk preferences will show the effects of the financial losses in-

curred in the aftermath of the Russian crisis for a longer time than will professional investors'. Also, foreign exchange regulations do not allow the involvement of less risk-averse foreign investors. In consequence, government securities are likely to stay in the spotlight over the medium term.

The implications are that while institutional investors in advanced market economies play a key role in financing corporate sector projects, modernising corporate structure and enforcing advanced management practices and capital market innovation, their participation in Hungary is essentially confined to financing the general government deficit.

VIII. Operation of the banking system in 1999

1 Size, growth and ownership structure of the market

1.1 Size and growth of the market

The number of credit institutions operated in the form of companies limited by shares amounted to 43 in 1999, compared to 44 a year earlier, as a result of the winding up of Realbank, the merger of EKB with Citibank and the launch of a second mortgage bank. Enabled by a change in the relevant statutory regulation coming into force on January 1, 1999, five credit institutions were granted full licence to provide investment services (*ABN-AMRO, Deutsche Bank, Raiffeisen Bank, Rabobank, WLB*).

At the end of 1999, the number of credit institutions operated as cooperatives amounted to 217 (of which 209 were savings cooperatives and 8 credit cooperatives), 26 less than a year earlier. One new savings cooperative was founded in 1999 (EuroDirect National Savings Cooperative), and 27 savings cooperatives (compared with a total of 7 in 1998) merged in a rising wave of fusions.

The balance sheet total for the system of credit institutions as a whole amounted to HUF 7,806.5 billion at

the end of 1999, exceeding the figure for the previous year by 12.6%, which represents a 1.4% increase in real terms.¹The balance sheet total of credit institutions operated as companies limited by shares – hereinafter referred to as the banking system – increased from HUF 6,560 billion as at December 31, 1998 to HUF 7,355 billion, a rise of 12.1% in nominal and 0.9% in real terms. Credit institutions run in a cooperative structure – hereinafter referred to as cooperatives – realised a 20% increase, with their combined balance sheet total reaching HUF 451 billion in 1999.

The activity of credit institutions showed an uneven picture over the year, with slower expansion in the first eight months and stronger activity from September.

Similar to previous years, the market share of large banks continued to decline in 1999, although the group appeared quite heterogeneous, with the activity of banks equipped with a proper business strategy expanding at an above-average pace (*see Table VIII-1*).

Although for the third successive year medium-sized banks showed brisk activity, 1999 also saw signs of growing differences within this group. While the increase in the total balance sheet of some medium-sized banks approached that of large banks, others experienced flat growth rates. Nevertheless, this is the only

Table VIII-1 Growth rate and market share of credit institutions by groups

	Number of credit institutions		Balance sheet total			Distribution	
	1998	1999	Dec. 31, 1998	Dec. 31, 1999	Change	Dec. 31, 1998	Dec. 31, 1999
	31 December		HUF billions		%	%	
Large banks	7	7	4,161.3	4,588.3	110.3	60.0	58.8
Medium-sized banks	12	12	1,665.7	2,042.5	122.6	24.0	26.2
Small banks	18	16	432.5	416.0	96.2	6.2	5.3
Commercial banks, total	37	35	6,259.5	7,046.8	112.6	90.3	90.3
Specialised credit institutions	3	4	273.5	257.2	94.1	3.9	3.3
Home savings and loan association	4	4	27.2	51.3	188.6	0.4	0.7
Banking system, total	44	43	6,560.2	7,355.3	112.1	94.6	94.2
Savings and credit cooperatives	243	217	375.2	451.2	120.3	5.4	5.8
Credit institutions, total	280	252	6,935.4	7,806.5	112.6	100.0	100.0

¹ Based on preliminary, non-audited data for 1999.

² Deflated by the Dec. 1999/Dec. 1998 consumer price index (11.2%).

group which was capable of considerably expanding its market share.

The fact that the activity of small banks weakened even in nominal terms can partly be attributed to the decline in the number of participants (commencement of the winding-up of Realbank, merger of EKB and Citibank), and partly to their disadvantaged position in an environment characterised by sharp market competition. The only new banks which were able to achieve positive growth within this group were those specialised in particular banking services and those enjoying strong support from their parent companies.

Another factor in the weakening activity within the sector of specialised credit institutions was that the intended strategic swap took longer than expected in 1999.

The vigorous growth of home savings and loan associations was a natural consequence of the steady flow of savings into deposit contracts concluded earlier. At the same time, the number of existing contracts did not increase considerably in 1999, falling significantly short of expectations.

The activity of credit cooperatives rose at a higher-than-average rate of 20.2%, with the most success achieved in small and medium-sized towns.

1.2 Ownership structure

Unlike in 1998, when the consolidation of Postabank caused the share of state ownership to rise significantly, 1999 saw no major changes in the ownership structure of the banking system.

The share of foreign ownership in the subscribed capital of the banking system continued to grow (by 4.1 percentage points to 65%), which, apart from the foun-

dation of HVB with a subscribed capital of HUF 3 billion, was basically the result of the additional subscribed share issues in the course of 1999 by foreign credit institutions with established stakes in the sector.

Domestic ownership declined not only in terms of proportion, but also in terms of value, which can be attributed to the fact that winding-up procedure of a small bank commenced in early 1999 and that, in the aftermath of the stock exchange developments of 1998, residents began to cut back their investments in stock-exchange traded banking shares, which were then purchased by foreign institutional investors.

2 Changes in the balance sheet structure

2.1 Key shifts in the balance sheet structure and off-balance-sheet transactions

The figures in *Table VIII-3*, illustrating the changes in the structure of the balance sheet in 1999, show that there were no major shifts in the structure of liabilities held by the banking system. There was a small increase in the share of internal funds, deposits and foreign liabilities, along with a continuing decline in central bank liabilities. Over the first ten months, foreign liabilities increased at a slower pace than the rate of devaluation, but November and December saw a surge in foreign liabilities (HUF 179 billion), used for financing foreign assets and foreign exchange loans to domestic enterprises. Household liabilities expanded at a slower pace than in 1998, and the 12% growth (HUF 301 billion) was not sufficient to keep the share of the sector from falling, partly on account of the upturn in household consumption and household credit. Note should be taken of the fact, however, that savings outside the banking sector also remained below the levels seen in 1998.

The shift within the banking system towards assets with a larger element of risk continued in 1999. Within total assets, the share of risk-free securities decreased significantly, simultaneously with increased lending (to the corporate, household and public sectors) as well as a rise in foreign assets. The falling share of government securities was primarily attributable to banks, whereas credit cooperatives increased their holdings of government securities, presumably as they had no access to the National Bank's deposit facility. Lending expanded at a higher rate than inflation and the balance sheet total. Lending to the household and corporate sectors rose by 34% and 20%, respectively. It was the public sector which increased borrowing at the fastest pace (37%), as a result of direct credit to the Treasury.

Table VIII-2 Ownership structure

Shareholders	Dec. 31, 1998		Dec. 31, 1999	
	HUF mil-lions	Per cent	HUF mil-lions	Per cent
State ownership, total	69,244	21.1	68,995	19.9
Credit institutions	21,590	6.6	19,436	5.6
Investment trusts, insurance	5,122	1.6	1,555	0.4
Businesses	13,395	4.1	12,636	3.6
Individuals	9,184	2.8	9,090	2.6
Other	621	0.2	972	0.3
Other residents, total	49,911	15.2	44,229	12.7
Residents, total	119,155	36.4	112,685	32.4
Non-resident credit institutions	152,527	46.5	173,235	49.9
Other non-resident	47,242	14.4	52,748	15.2
Non-resident, total	199,769	60.9	225,984	65.0
Preferential shares	5,817	1.8	7,257	2.1
Repurchased shares	3,039	0.9	1,586	0.5
TOTAL	327,779	100.0	347,512	100.0

Table VIII-3 Balance sheet structure of the banking system

ASSETS	Per cent		LIABILITIES	Per cent	
	Dec. 31, 1998	Dec. 31, 1999		Dec. 31, 1998	Dec. 31, 1999
Government securities	15.8	12.4	Internal funds	8.6	8.8
Central bank	16.8	16.8	Subordinated loan capital	1.9	1.9
Credit institutions	7.7	6.6	Central bank liabilities	2.5	1.6
Financial institutions, excl. credit inst.	0.8	1.1	Liabilities from other financial institutions	7.3	6.2
Foreign assets	9.5	10.7	Foreign liabilities	16.5	17.2
Loans	35.7	38.7	Financial institutions, excl. credit inst.	1.0	1.0
– corporate sector	29.9	31.7	Deposits	55.5	56.0
– household sector	3.8	4.6	– corporate sector	16.2	17.0
– public sector	1.7	2.1	– household sector	36.2	36.0
Provisions	-1.7	-1.2	– public sector	3.1	3.0
Equity shares and bonds	4.3	3.8	Debt securities	1.3	1.4
Cash and current accounts	5.6	6.0	Other liabilities	5.3	6.0
Other assets	5.7	5.3			
Assets, total	100.0	100.0	Liabilities, total	100.0	100.0

The share of short-term liabilities within total liabilities remained dominant (75%). There was no significant change in the forint-to-forex ratio of two-thirds to one-third in either the assets or the liabilities side.

Off-balance-sheet activities

The ratio of off-balance sheet liabilities to the balance sheet total for the banking system amounted to 44% at the end of 1999, marking a 13.6-percentage point fall compared with the previous year (see Table VIII-4).

Risk-adjusted contingent liabilities rose mainly due to the expansion of irrevocable credit lines offered to the corporate sector.

While the volume of forward transactions in total terms fell significantly as open foreign exchange positions were closed, the risk-adjusted value rose, due to the drop in the proportion of transactions conducted on the stock exchange. The value of forwards transactions with customers remained substantial.

Table VIII-4 Ratio of off-balance sheet liabilities to the balance sheet total within the banking system

Banking system	Per cent	
	Dec. 31, 1998	Dec. 31, 1999
Contingent liabilities, total	26.0	29.0
Forward liabilities, total	31.6	15.0
Total	57.6	44.0
Risk-adjusted contingent liabilities	9.4	11.9
Risk-adjusted forward liabilities	0.7	1.0
Total	10.1	12.9

2.2 Corporate sector

2.2.1 Credit to the corporate sector

Total lending by the banking sector to companies amounted to HUF 2,476 billion at the end of 1999, reflecting a rise of 19.6% relative to late-1998 (see Table VIII-5), which exceeded the growth rate of the banking system balance sheet total. Lending increased at an uneven pace during the year, with a marked upturn seen in the fourth quarter primarily in project financing and overdraft loans. Forty-two per cent of the annual growth was accounted for by foreign exchange loans for terms in excess of one year and 35% by overdraft or ad hoc loans.

Table VIII-5 Main categories of credit to the corporate sector

	Stock at year-end, HUF billions		Change (percentage)
	1998	1999	
By banks, total	2,020	2,395	118.6
Loans for terms less than one year	1,000	1,170	117.0
Loans for terms over one year	1,020	1,225	120.0
Forint loans	1,375	1,565	113.8
Foreign exchange loans	645	830	128.7
By cooperatives	51	81	158.6
Total	2,071	2,476	119.6

After expanding at a slow pace over the first three quarters, lending to the corporate sector for terms in *excess of one year* began to gather pace in Q4, increasing by 11.4% relative to Q3 (see Table VIII-6). Most of the growth was in the stock of long-term credit, 80% of which was composed of foreign exchange loans.

Lending to the corporate sector for *terms less than one year* (17.0%) grew at a lower rate than the total stock of lending to businesses. Within short-term loans, the amount of overdrafts and ad hoc loans rose sharply by 23.4% compared with the previous year. However, as the substantial daily changes should not be ignored it seems expedient to monitor the average amounts of lending as well (see Table VIII-7).

Table VIII-6 Quarterly growth rate* of loans for terms over one year

	Per cent			
	Q1	Q2	Q3	Q4
Banks, total	4.2	-0.7	4.1	11.4

* Relative to end of previous quarter.

Table VIII-7 Average quarterly amount of overdraft and ad hoc loans

	HUF billions			
	Q1	Q2	Q3	Q4
Ad-hoc loans	273.2	306.8	337.8	368.4
Overdraft loans	220.6	238.8	244.6	256.8
Total	493.8	545.6	582.4	625.2

The over 40% rise in risk-adjusted contingent liabilities (credit lines, guarantees, etc.) could imply a further rise in the amount of lending to businesses.

For the period after September 1999, information is available on the level of lending to small, medium-sized and micro enterprises (see Box VIII-1).

An analysis of the forint and foreign exchange composition of the stock of corporate borrowing indicates a 3 percentage point fall in the proportion of forint loans, bringing the ratio to 65:35 by the year-end. The proportion of foreign-exchange denominated loans rose by 7 percentage points in the case of loans for terms in excess of one year, while that of short-term loans fell by 2 percentage points.

In terms of the sectoral distribution of corporate credit, manufacturing accounted for the largest proportion (29.2%), reflecting a 2.0 percentage point fall compared to late 1998. At the same time, the stock of lending to the retail, road vehicle and consumer goods repairs sector gradually expanded, boosting the share of this sector within the stock of lending to 20.8%. Furthermore, there was a sharp increase in the volume of loans to the transport, storage, postal and telecommunications sector, as well.

At the end of 1999, 31% of the total stock of lending to the corporate sector was targeted at small and medium-sized companies, half of it to medium-sized firms and 25% to small and micro firms each. The establishment of a collective guaranty fund is expected to lead to a further increase in the stock of lending. These funds offer absolute guarantees for loans provided by partner

Box VIII-1

Act XCV of 1999 on the Definition of Small- and Medium-sized, and Micro-Enterprises

2. § An enterprise

- a) with a total number of employees of less than 250, and
- b) with a maximum net annual income of HUF 4,000 million, or a maximum balance sheet total of HUF 2,700 million, furthermore
- c) which satisfies the conditions set forth in Section 3 (3) is defined as a small- and medium-sized enterprise.

3. § (1) An enterprise

- a) with a total number of employees of less than 50, and
- b) with a maximum net annual income of HUF 700 million, or a maximum balance sheet total of HUF 500 million, furthermore
- c) which satisfies the conditions set forth in paragraph (3) is defined as a small enterprise.

(2) An enterprise with a total number of employees of less than 10, which satisfies the conditions set forth in paragraph (1) b)–c) shall be defined as a micro-enterprise.

(3) An enterprise is defined as a small and medium-sized enterprise if the ownership shares in such which are held by the state, a local government or enterprises other than the enterprise under Section 2 do not exceed 25% either individually or combined, both in terms of equity and voting rights.

credit institutions to small and medium-sized companies.

The total volume of corporate credit increased at a faster pace than the stock of debt to the domestic banking system, as direct borrowing from abroad³ expanded by 54.8%. Companies' net external debts increased at a lower rate (48.1%) than external borrowing, as the period under review witnessed a sharp rise in the external lending activity of Hungarian companies.

The external lending activity of Hungarian credit institutions (exclusive of loans to foreign credit institutions) was also very strong with an increase of 60%, totalling HUF 242 billion by the year-end. This growth came exclusively from long-term loans.

2.2.2 Deposits by the corporate sector

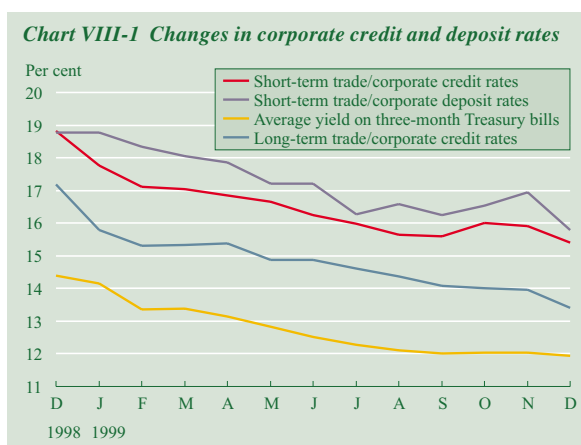
The end-1999 value of deposits (HUF 1,326 billion) rose by 18.2% compared to end-1998. The strong growth seen in the final quarter of the previous year was followed by a slight decline in volume in 1999 Q1, which was in turn followed by another acceleration in growth.

Deposits for terms less than one year accounted for nearly 99% of total corporate deposits. In terms of the forint - foreign exchange composition of deposits, there was a shift towards forint liabilities, accounting for 82% of end-1999 total liabilities.

2.2.3 Corporate interest rates

Interest rates on short-term corporate credit decreased by 3.4 percentage points relative to the values for December 1998. Note should be taken, however, of the temporary rise in interest rates (0.5 percentage points in the period between September and December) in the final quarter of 1998, as a result of the Russian crisis. Until August 1999, interest rates on short-term corporate credit fell at a faster pace than leading money market rates. This was followed by signs of a rise in the risk premium, primarily on account of the shift towards small and medium-sized enterprises, involving a larger element of risk. In December, the difference between weighted average interest rates on short-term company loans and the three-month discount Treasury bills rose to 2 percentage points. Interest rates on corporate loans for terms in excess of one year declined by 3 percentage points, at a lower rate than short-term interest rates (see *Chart VIII-1*).

In 1999, corporate deposit rates for terms of less than one year fell more slowly than credit rates, resulting in



the narrowing of the short-term interest margin. The jump in the weighted average of short-term credit rates brought about a temporary rise in the interest margin in October and November. The interest spread for December 1999 was 0.9 percentage points lower than in December 1998. It should be taken into consideration, however, that in December 1998, the interest margin rose by 0.6 percentage points relative to three months earlier.

2.3 Household sector

Lending to households gained momentum in 1999, in a continuation of the 1998 trend of commercial banks stepping up their business transactions with households. On the liabilities side, there were clear signs of a pick-up in current account and related services, while on the assets side, consumer credit came into the foreground along with a decline in mortgage lending activity.

The proportion of the stock of household lending rose from 3.8% at the end of 1998 to 4.6%.

2.3.1 Assets

By late December 1999, the stock of household lending had grown by HUF 89.5 billion, up by 33.5% compared to a year earlier (see *Table VIII-8*).

Table VIII-8 Breakdown of lending to households

	Dec. 31, 1998	Dec. 31, 1999	Change
	HUF billions		Per cent
Banking system	218.5	290.4	132.9
– for terms in excess of one year	188.5	256.9	136.3
– less than one year	30.0	33.5	111.7
– housing	114.2	104.7	91.7
– consumer	102.2	184.6	180.6
Cooperatives	48.5	66.1	136.4
Total	267.0	356.5	133.5

³ Borrowing from abroad includes intercompany loans.

Concentration in the household credit market remained high in 1999. The first six banks with the largest market share accounted for 84.1% of the total stock of lending, representing a nearly 4-percentage point drop on a year earlier.

Consumer credit

The growth in household assets was a straightforward result of an increase in consumer lending activity. The volume of consumer credit rose from HUF 122.4 billion at end-1998 to HUF 212.9 billion (by 74%) in December 1999, increasing the share in the total stock of household credit from 46.8% to 63.6%. Banks saw stronger growth (of over 80%), with credit cooperatives contributing to this growth to a smaller extent (34%).

Credit for automobile purchases represents a separate category within consumer credit, being predominantly furnished by banks specialising exclusively in this type of lending. It represents an 11.9% share of the stock of household credit.

2.3.2 Deposits

The volume of households' deposits placed with the system of credit institutions (*see Table VIII-9*) amounted to HUF 2,814 billion as at December 31, 1999, a rise of HUF 301 billion, or 12%, compared with the end of the previous year. Nevertheless, the proportion of liabilities to the balance sheet total fell to a small extent (from 36.2% to 36%).

The amount of deposits on current account, which the banks playing a significant role in the household market regard as a flagship product rose from HUF 393.6 in 1998 to HUF 486.2 billion, i.e. by 23.5% in nominal terms (12.3% in real terms), significantly exceeding the annual growth rate of total deposits.

There is an equally high level of concentration as far as liabilities from households are concerned, with 88.3% of end-December stock in the hands of the ten banks most active in attracting deposits.

Table VIII-9 Breakdown deposits by households

	Dec. 31, 1998	Dec. 31, 1999	Change
	HUF billions		Per cent
Banking system	2,218	2,462	111.0
– forint	1,602	1,814	113.2
– foreign exchange	616	648	105.3
– for terms in excess of one year	171	192	112.7
– for terms less than one year	2,047	2,270	110.9
– current account deposit	394	486	123.5
Cooperatives	295	352	119.2
Total	2,513	2,814	112.0

2.3.3 Interest rates on households' assets and liabilities

In keeping with the overall downward trend, interest rates on the banking system's assets and liabilities in the household sector also declined in the course of 1999.

Partly as a result of the weakening demand for mortgages within the category of consumer credit and partly because of the stampede for potential customers, average mortgage rates fell by 4.2 percentage points, from 27.1% in December 1998 to 22.9% at the end of 1999. Nevertheless, the stronger demand for consumer credit did not prompt banks to follow suit for consumer loans, thus average rates fell only slightly, from 25.7% at end-1998 to 23.9% a year later. Over 1999, mortgage rates were declining at an accelerating pace, exceeding the speed of decline in consumer credit rates, which resulted in average mortgage rates sinking below the level of consumer credit rates. It should be noted, however, that the credit equivalence indicator might well be considerably higher than the announced rates, although to differing degrees, depending on the individual bank.

As far as deposits for various terms are concerned, average interest rates on sight deposits fell from 7.9% to 6.3% in the course of twelve months, while rates on deposits for terms less than one year decreased from 14.4% to 11.1% and those on longer-term deposits from 14.3% to 10.9%.

The differences in the pace and degree of changes in credit and deposit rates, however, led to a slight increase in the interest margin, which enabled extra income to be realised in the category of lending to households funded by household deposits.

2.4 Government and local authorities

Within the portfolio of bank assets, the proportion of government securities maintained the downward trend first observed in 1998 Q3. The share of government securities in the balance sheet total fell from 14.7% early in the year to 10.8% late in the year, a decrease amounting to HUF 163 billion. This was accompanied by an increase in the volume of government bonds held by credit institutions organised as cooperatives (*see Table VIII-10*).

Table VIII-10 Stock of government securities

	Dec. 31, 1998	Dec. 31, 1999	Change
	HUF billions		Per cent
Banking system	954.0	791.1	-16.9
Cooperatives	145.5	178.9	+33.4
Total	1,099.5	970.0	-129.5

The stock of lending to the central budget rose by HUF 32 billion in September, owing to a new long-term foreign exchange loan provided by a consortium. Local governments continued to account for a minor share of 0.7% (HUF 49.1 billion) on the assets side and 1.8% (HUF 123.6 billion) on the liabilities side at the end of 1999.

2.5 Central bank and interbank money market

The interbank money market in 1999 was characterised by a slow, but predictable decline in yields and interest rates, as well as relatively stable turnover. As the banking system enjoyed abundant liquidity for the year as a whole, banks did not encounter difficulties acquiring funds. Against a background of favourable market conditions, the active repo facility only had to be resorted to early in the year. While transactions with the central bank were dominated by two-week loans rather than overnight loans, interbank market deals were dominated by short-term loans, on account of the increased liquidity. The lack of erratic movements in the interbank market can be partly attributed to the improved liquidity management of credit institutions. Another factor here was the introduction of the two-week deposit facility by the National Bank of Hungary on March 1, 1999, replacing the former once-a-month construction.

2.5.1 Liabilities from the central bank

Credit institutions' liabilities from the central bank amounted to HUF 123.7 billion at the end of December 1999, down by 29.4% on the beginning of the year. This change was broadly due to an evenly paced decline, amounting to HUF 19.3 billion, in banks' long-term forint-denominated refinancing borrowing. The amount of forint liabilities received in exchange for foreign exchange deposits amounted to HUF 43.0 billion at the end of December, down by 39% on the beginning of the year.

Commercial banks' total claims on the central bank, exclusive of central bank foreign exchange bonds, amounted to HUF 1,063.7 billion at the end of December, up by 30.3% on a year earlier. Most of the increase took place in the final two months of 1999. The bulk of assets is composed of short-term deposits placed with the central bank, amounting to HUF 936.0 billion at the end of December. During the year, there was a major shift in the forint - foreign exchange ratio of deposits, as the share of foreign exchange deposits fell from 58% in early January to 28% late in the year.

The volume of banks' *foreign exchange bonds issued by the central bank* reached HUF 223.7 billion at the end of the year, up by 1.8% on the beginning of the year.

2.5.2 Internal liabilities and assets

The total stock of HUF 436.9 billion in *internal liabilities* at the end of December 1999 was down by 7.7% compared with the beginning of the year. This resulted in a drop in the share of foreign exchange liabilities from 40.8% at the beginning of the year to 38.4%. In terms of claims on domestic banks, interbank deposits accounted for HUF 308.9 billion and loans for HUF 109.2 billion. With respect to the forint to foreign exchange composition of total assets, the share of forint assets dropped from 48.2% early in the year to 47%.

Banks' *total external liabilities* amounted to HUF 666.6 billion at the end of December 1999, up by 1.1% on the value for early January. *External assets* rose by 17.2% to HUF 543.2 billion at the year-end, dominated mainly by short-term deposits. The net external borrowing position of the banking system amounted to HUF 120.8 billion at the end of 1999.

The total amount of interbank forward liabilities (HUF 227.4 billion) at end-December 1999 reflected a 70% drop compared with a year earlier, mainly as a result of the contraction of foreign exchange forward contracts.

2.5.3 Central bank and interbank rates

Money market interest rates declined steadily throughout 1999. Interbank borrowing rates fell from an average 17% early in the year to 13.5–14.0% at the year-end.

3 Capital adequacy of the banking system

In spite of the considerable internal movements during the period between December 31, 1998 and December 31, 1999, no major changes took place in terms of capital adequacy. As a result of stronger banking activity in segments with a greater element of risk, the capital adequacy indicator declined from 16.4% to 15.7%, with the positive preliminary profit included, and to 14.1% with profits excluded.

In terms of preliminary data, the own capital of the banking system amounted to HUF 655 billion at the end of 1999, a rise of HUF 84 billion over a year earlier. This 15% increase exceeded the 12% rise in the balance sheet total.

As a result of mutually opposing effects, the volume of subordinated loans rose by over HUF 20 billion to HUF 146 billion, relative to the previous year. New subordinated borrowing amounted to HUF 21 billion, and was primarily resorted to in critical situations for the

Table VIII-11 Capital adequacy of the banking system

	Dec. 31, 1998	Dec. 31, 1999	Change	
	HUF billions		Per cent	
Balance sheet total	6,560	7,355	795	112
Weighted balance sheet total	2,739	3,092	353	113
Weighted off-balance-sheet items	663	944	281	142
Adjusted balance sheet total	3,350	3,976	626	119
Own funds	549	559	10	102
Capital adequacy ratio	16.4%	14.1%		-2.3
Own funds with interim positive results		623		
Capital adequacy ratio with int. pos.		15.7%		

purpose of complying with capital adequacy regulations. The increase in the forint value of forex-denominated subordinated loan capital was offset by the decrease in volume in the case of a few banks, prompted by a change in the relevant regulations. Under the new rules effective as of 2000, a calculation of the banks' own funds can include the subordinated loan capital only to the extent of 50% of the capital base, compared with the proportion of 100% previously. Therefore, a number of banks used the portion of their subordinated loan capital in excess of 50% of the capital base as a means of raising registered capital.

Compared with the audited data for end-1998, the capital adequacy ratio fell by 2.3 percentage points, as a result of the on-balance-sheet and off-balance-sheet activities of the banking system (*see Table VIII-11*). Contingent liabilities increased considerably, with the strongest growth seen in terms of guarantees and credit lines with a risk weighting of 100% and 50%. The sum of forward liabilities declined somewhat, while the share of full risk-weighted foreign-exchange transactions within the total rose sharply.

Banks' own funds increased by HUF 10 billion over the year, owing to the rise in the base and additional ele-

ments of their capital (HUF 8 and 12 billion, respectively), as well as due to the increase in overdrafts to be covered from capital.

With non-audited positive profits also taken into account, banks' own funds exceeded the end-1998 volume by HUF 74 billion. However, the rise in such funds was slower than that of the risks emerging in the banking system's portfolio, entailing a 0.7% fall in the capital adequacy ratio, in terms of this calculation as well.

4 Assessment of the risks faced by the banking system

4.1 Portfolio of the banking system

While qualified assets expanded at a considerably faster pace in 1998 than the total portfolio, at the end of 1999, the volume of problematic assets was down on a year earlier even in nominal terms. In spite of the improvement in portfolio quality, provisions for risk reduced the banking system's profits by HUF 34.5 billion, as most of the improvement in the portfolio was brought about by selling or writing off qualified assets.

Although rising in real terms in 1999, the banking system's qualified portfolio was unable to maintain the rate of growth seen over the previous years. As in 1998, the main factor in the nominal increase of the portfolio was the rise in on-balance-sheet items.

It can be regarded as an improvement in portfolio quality that except for items to be monitored individually, values for all the other categories declined (*see Table VIII-12*). The fly in the ointment in this respect is that this was primarily due to selling or writing off qualified loans amounting to nearly HUF 39 billion, which resulted in a loss of over HUF 26 billion. This loss was further aggravated by the fact that the selling price of the interests was lower than the registered value.

Table VIII-12 Development of portfolio quality

	December 31, 1998		December 31, 1999		Change		Change in provisions	
	Stock	Provision	Stock	Provision				
	HUF billions		HUF billions		HUF billions	Per cent	HUF billions	Per cent
Qualified assets	6,875	188.8	7,823	145.1	948	13.8	-43.7	-23.1
On-balance-sheet items	4,067	168.0	4,648	127.3	581	14.3	-40.7	-24.2
Problem-free	3,435		4,060		625	18.2		
Qualified	634		588		-46	-7.3		
To be monitored	321	12.2	343	8.1	22	6.9	-4.1	-33.6
Below average	92	16.8	80	16.9	-12	-13.0	0.1	0.6
Doubtful	117	47.8	90	38.6	-27	-23.1	-9.2	-19.2
Bad	104	91.2	75	63.7	-29	-27.9	-27.5	-30.2
Off-balance-sheet items	2,807	20.7	3,174	17.8	367	13.1	-2.9	-14.0
Qualified	95		71		-24			

Table VIII-13 Effect of provisioning on profits

	Dec. 31, 1998*	Dec. 31, 1999
	HUF billions	
Risk provisions	-29.3	-34.5
General risk provision	-13.1	-12.3
Other risk provision	-6.5	-10.4
Of which: for country risk	-7.5	-3.7
Total	-48.9	-57.2

* Exclusive of Postabank, MFB and Realbank.

Table VIII-14 External assets of the banking system by country risk

	Dec. 31, 1998	July 30, 1999	Dec. 31, 1999
	HUF billions		
On balance sheet	710	781	888
Off balance sheet	476	447	657
Contingent	58	123	205
Future	418	324	452
Total*	778	875	1,035
Countries without risk	632	745	930
Countries with risk	146	130	105
Of which: Russia	84	81	56

* Contingent assets with a weight of 50% and future assets with a weight of 10%.

In the course of qualification and requalification procedures, credit institutions formed risk provisions worth HUF 97.1 billion in 1999. In the course of selling and writing off portfolio elements, provisions worth HUF 61 billion were utilised, and provisions worth HUF 62.6 billion were released for the same reasons and because of requalification. As the utilisation of provisions has no effect on profits, the reduction in profits equals the difference between the volume of risk provisions and the released value, that is, HUF 34.5 billion (see Table VIII-13).

External assets continued to expand in 1999, although at a moderate pace. In terms of country risk, most of the funds (HUF 930 billion) were directed at risk-free countries. It was a welcome development that the stock of lending to countries with a greater degree of risk was falling steadily, amounting to HUF 105 billion at end-December (see Table VIII-14).

Pursuant to the 1997 Act on Credit Institutions, credit institutions must set aside general provisions within three years. This type of provisioning, which is not linked to the individual items of the portfolio, resulted in a HUF 12.3 billion deduction from the profits of the banking system.

4.2 Interest rate risk in the banking system

The banking system's exposure to interest rate risk, in other words, the effect on the banks' profits of prospective changes in interest rates, has remained moderate,

due to the fact that the most assets and liabilities have floating rates, and those with fixed interest rates are usually repriced on a quarterly basis. In terms of another favourable phenomenon – which is partly associated with Hungarian saving habits – the proportion of long-maturity fixed interest deposits is marginal. At the same time, it is a new development that the negative difference between foreign-exchange assets and liabilities repriced within the term of a quarter increased considerably, indicating the expectations of a reduction over the short term in foreign exchange interest rates in late 1999.

The 90-day forint repricing gap did not change substantially, widening slightly during the first three quarters and narrowing during the final quarter, bringing down the gap's ratio to the balance sheet total from -11.5% at the beginning of the year to -10.1% (HUF -747 billion). The maintenance of the negative gap indicates the banks' expectations of continued decline in interest rates.

Similar to forint instruments, the 90-day foreign exchange repricing gap widened considerably in the negative direction by late September (to -4.3% of the balance sheet total), then narrowed somewhat, but still remained wider (-3.3%) than the low 1.9% early in the year. The negative interest rate gap undertaken in foreign exchange may have adverse impact on income, since further interest rate hikes are likely both in respect of the euro and the dollar.

Table VIII-15 Main indicators of interest rate risk

	Dec. 31, 1998	Dec. 31, 1999
	Per cent	
Fixed-interest assets/total interest-bearing assets	48.9	48.4
Fixed-interest liabilities/total interest-bearing liabilities	50.2	48.3
Fixed-interest deposits maturing over 3 months/total interest-bearing liabilities	5.6	3.8
90-day cumulative forint gap* (HUF billions)	-756	-747
90-day cumulative foreign exchange gap (HUF billions)	-123	-241
90-day cumulative forint gap/balance sheet total	-11.5	-10.1
90-day cumulative foreign exchange gap/balance sheet total	-1.9	-3.3

* Repricing gap: the difference between interest-bearing assets and interest-bearing liabilities according to their repricing.

4.3 Exposure to exchange rate risk

The exchange rate risk faced by the Hungarian banking system essentially consists of two elements. One is derived from the intra-band movements of the forint. If a bank has an open position against the forint, then the intra-band fluctuations may influence its profits to a

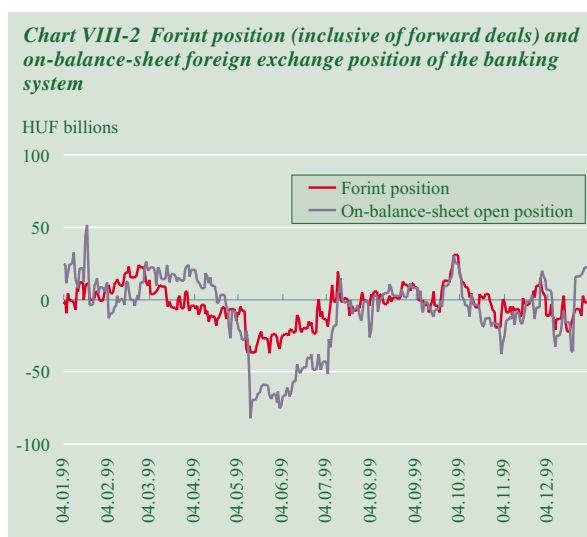
maximum extent of 4.5% of the position (equalling the $\pm 2.25\%$ range of the intervention band), or the rate of an unexpected devaluation in the exchange rate of the forint. The other constituent of exchange rate risk is the volatility of cross-currency rates.

The currency structure of total assets features a 52% share of euro and the currencies of euro-zone countries and a 46% share of US dollar assets. As regards liabilities, euro-linked currencies and the euro take an equal 49% share with USD liabilities. The removal of the dollar from the currency basket and the changes in dollar-euro cross rates are expected to substantially alter these ratios.

Both the on balance sheet and the total open position remained at a low level in 1999 Q1 (see Chart VIII-2). In the second quarter, the on balance sheet position changed signs with foreign exchange assets exceeding foreign-exchange liabilities. A major change occurred in mid-May, in the immediate aftermath of the publication of the unfavourable current account data in March, which caused a decline of HUF 48 billion (from HUF -21.6 billion to -69.5 billion) in the on-balance-sheet forint position in a matter of days owing to speculation against the forint. Although smaller in absolute terms, the total open position was equal to the on balance sheet open position. From the beginning of the third quarter, the banking system saw a substantial decline in both positions.

On balance sheet open positions fell dramatically, hand in hand with a significant cutback on the banks' foreign exchange forward transactions.

The currency cross rates risk decreased considerably after January 1, 1999 for the banking system as a whole, primarily because the risk linked to euro-area currency cross rates was eliminated by the adoption of fixed exchange rates.



The balance sheet data for December 1999 suggest that the volume of short-term external foreign exchange liabilities has started to increase, approaching the level for September 1998.

5 Profitability of the banking system

In terms of preliminary figures, pre-tax profits for 1999 amounted to HUF 46 billion. Twenty-six banks recorded a profit (totalling HUF 82 billion) and 17 banks registered a loss (totalling HUF 36 billion) over the period. Pre-tax profits, excluding those of Postabank and MFB, amounted to HUF 42.2 billion in 1999, down by HUF 10.2 billion (20%) relative to 1998.

In order to present an authentic picture of the income development of the banking system, data for the base period or the period under review reported in this chapter do not take account of the figures for Postabank, MFB or Realbank.

The main factor in the decline of profitability is seen in the fact that while the operating profits of the banking system only rose by HUF 16.6 billion, operating costs increased by HUF 31.2 billion. The modest rise in operating profits was the result of a 2.3% decline in interest income and a 28.6% rise in profits on other financial and investment services.

The interest rate income and profits from futures deals, currency trade and exchange rate changes together rose by 5.6%, relative to a year earlier.⁴

Interest income declined by 2.3% as a result of the 9.4% and 12.6% decrease in interest revenues and interest expenses, respectively (see Table VIII-16).

The decline in transactions aimed at taking advantage of the extra yield on the forint is clearly illustrated by the development of the internal structure of interest revenues and interest expenses. Compared with the same period a year earlier, interest income from the National Bank of Hungary and on government securities fell by 25% and 28%, respectively, simultaneously with a 55% fall in other interest expenses. As the increase in the stock of lending was able to compensate for the decrease in interest rates on lending to the corporate and the household sectors, interest income from customers rose by 10% on a year earlier.

⁴ Analysis of interest income and profits from other financial and investment services is distorted partly because banks booked considerable profits in 1998 by converting their foreign exchange liabilities into forint assets, and partly because of the absence of a unified method of recording related revenues and expenses. While yield on forint assets was included with interest revenues, liability costs were partly included in interest costs and partly in entries on forward transactions or income from foreign exchange trading and exchange rate changes. Consequently, the development of profits on interest income and on other financial and investment services is difficult to assess separately.

Table VIII-16 Components of returns

	1998*	1999*	1999	Change*	
	HUF billions			HUF billions	Per cent
Interest rate margin on banking activity	261.5	255.4	277.1	-6.1	-2.3
Interest received	843.6	764.2	873.2	-79.3	-9.4
Interest paid	582.0	508.9	596.1	-73.2	-12.6
Dividends received	3.5	5.1	5.9	1.5	43.3
Provisions	29.4	37.9	-8.4	8.6	29.2
Returns on other financial and investment services	74.2	95.4	67.6	21.2	28.6
Of which: commission fees	53.9	59.7	59.9	5.8	10.8
Returns on futures transactions	-6.9	-1.5	-1.4	5.4	78.6
Returns on foreign exchange trade and exchange	16.2	32.1	33.3	15.8	97.4
Other returns	-34.2	-33.8	-45.8	0.4	1.2
Returns on gross financial and investment services	275.6	284.1	313.3	8.4	3.1
Operating costs	217.2	248.3	269.7	31.2	14.3
Personnel payments	89.5	97.5	105.9	8.1	9.0
Other operational costs	127.7	150.8	163.9	23.1	18.1
Pre-tax returns	52.4	42.2	46.0	-10.2	-19.6
ROE (denominator: equity capital – return) (per cent)	8.87	5.84	5.51		
ROA (pre-tax/total assets) (per cent)	0.96	0.67	0.68		

* Excluding Postabank, Realbank and MFB.

Parallel to the aforementioned decline in interest income and expenses, the average volume of interest-bearing assets and liabilities rose by more than 15%. The average interest rate on assets and liabilities fell by 3.6 and 3 percentage points, respectively, relative to 1998, reducing the banking system spread by 0.59 percentage points (*see Table VIII-17*).

Earnings from the provision of other financial and investment services rose by 28.6% on a year earlier, as a result of which, 28% of the operating profits of the banking system came from non-interest type revenues (compared with 23% in 1998). Due largely to reasons noted above, the improvement in earnings from foreign currency trade and exchange rate changes amounted to HUF 15.8 billion, and on forward contracts to HUF 5.4 billion, relative to the previous year. The banking system's receipts from commission fees rose by HUF 5.8 billion, i.e., 11%.

The increase in provisioning for risk and other purposes worsened the profitability of the banking system by HUF 57 billion in 1999, compared with HUF 49 billion in 1998.

The 3.1% growth in the banking system's gross profits on financial and investment services activity was considerably exceeded by the 14.3% rise in operating costs, causing further deterioration in cost efficiency in the

Table VIII-17 Changes in the components of the spread

	1998	1999	Change
	HUF billions		Per cent
Interest revenues	844	764	-9.40
Interest-bearing assets	4,964	5,712	15.07
Average rate of interest (%)	1,6.99	1,3.38	-3.61
Interest spending	582	509	-12.57
Interest-bearing liabilities	4,624	5,320	15.06
Average rate of interest (%)	1,2.59	9.56	-3.02
Spread (%)	4.41	3.81	-0.59

course of 1999. Against the background of a small drop in the number of employed people, remuneration payments increased by 9% and other operating costs by 18%, relative to the year before. In respect of most banks, the sharp rise in operating costs stemmed from the development of the subsidiary network and the IT system, as well as increasingly higher marketing costs.

The average number of employees in the banking system fell by 6% year on year, thus, per capita earnings before tax was down by 14% on a year earlier. Although there was only a 13.5% rise in remuneration-type pay

net of social security contributions, per capita remuneration increased by 21% due to the reduction in the number of staff.

As a result of the decline in the income of the banking system in 1999, there was also a fall in both the return on equity and return on assets (ROE and ROA), relative to 1998. The ROE index stood at 5.8% in 1999, 3 percentage points down on the year before. The return on equity

in the period under review fell considerably short of the consumer price index. Hence, the banking system suffered a loss of capital in real terms. The ROA index stood at 0.67% in 1999, 0.3 percentage points down on the year before. The return on equity of 13 credit institutions exceeded the consumer price index in 1999, while the other 13 credit institutions closed the period with low profits.

IX. Emission operations of the National Bank of Hungary

1 New banknote series

In 1999, the National Bank of Hungary completed the issue of the new banknote series, which was initially launched in 1997 with the introduction of the 10,000-forint note. In 1998 four new denominations (2,000-, 200-, 1,000- and 500-forint notes) were put into circulation. The final member of the new banknote series was the new 5,000-forint note, issued in 1999. The Bank announced the withdrawal of the old banknotes simultaneously with the issue of the new notes of the same denomination. Since the replacement of the older 1,000-, 500- and 5,000-forint notes took significantly shorter than expected, the Bank reduced the period of transition when the old and new banknotes of the three denominations were being used simultaneously. Thus, since August 31, 1999, only the six denominations of the new banknote series are legal tender.

2 Notes and coin in circulation

2.1 Notes and coin

The value of notes and coin in circulation at end-1999 amounted to HUF 950.3 billion, up by 29.1% on a year earlier (see Table IX-1). This rise is broadly attributable to the growth in cash stocking in preparation for the Y2K date change (after adjusting for this effect, growth in notes and coin stood at 24%). Within the whole, the proportion was 98% notes and 2% coin.

The year 1999 was the first year in a long time when the value of notes and coin in circulation expanded at a higher rate than GDP growth at current prices (see Chart IX-1). This is also true even if the effect of the year-end increase in cash stocks related to the date change, which caused a 60% surge to approximately HUF 110 billion in the cash holdings of the banking system, is disregarded.

This increase in excess of GDP growth at current prices can be explained by declining inflation and inter-

est rates, and the resulting reduction in the opportunity cost of holding cash, that is, in lost gains.

Table IX-1 Notes and coin in circulation

	1998	1999	Change	
	HUF billions		Per cent	
Notes	717.1	931.1	214.0	129.8
Coin	17.7	17.9	0.2	101.1
Cash for circulation	734.8	949.0	214.2	129.2
Commemorative coins	1.2	1.3	0.1	108.3
Notes and coin in circulation	736.0	950.3	214.3	129.1

Chart IX-1 Growth rates of notes and coin in circulation and GDP (1994 = base year)

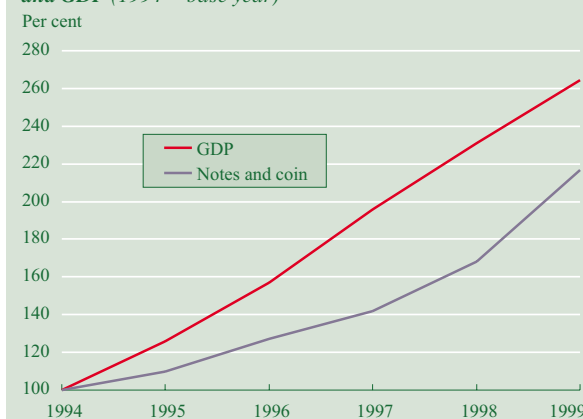


Chart IX-2 Notes and coin in circulation as a proportion of GDP

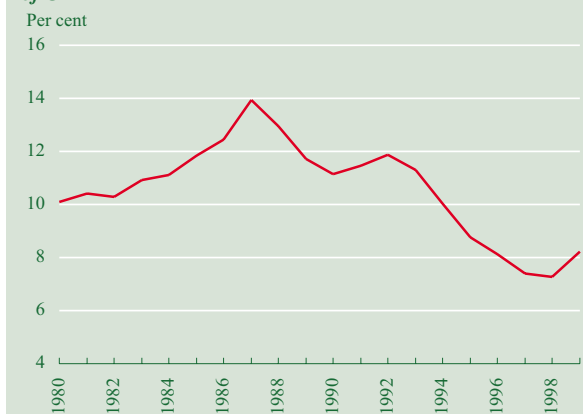
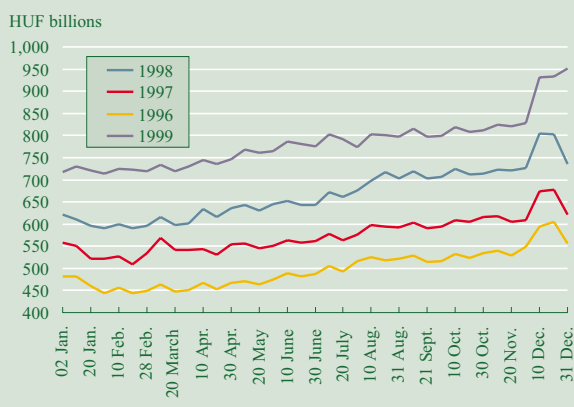


Chart IX-3 Notes and coin in circulation



Consequently, the ratio of cash to GDP rose from 7.2% in the previous year, to 8.2% at end-1999 (see Chart IX-2). Primarily because of higher GDP figures, the corresponding ratios for most European Union countries were lower, falling in the 3–7% range.

Fluctuations during the year in the value of notes and coin in circulation displayed seasonality similar to that of previous years (see Chart IX-3). In addition to the seasonally higher rate of cash holdings in December, the year-end growth was also due to the fact that a considerable number of businesses rescheduled payment of wages from their due date in early January to before the year-end holidays, and that credit institutions and other organisations held much larger cash stocks than a year earlier to ensure sufficient reserves to satisfy potential peak demand related to the year 2000 date change.

The amount of per-capita cash holdings stood at HUF 94,550 – consisting of 20 notes and 139 coins (more than 500 grams) at end-1999. While the value of per-capita notes and coin rose by 30% relative to the previous year, the number of notes remained unchanged and that of coin fell somewhat. This was partly due to the growth in the proportion of notes of higher denominations and partly to the withdrawal of the 50-fillér coin.

2.2 Banknotes in circulation

The sixth member of the new banknote series, the new 5,000-forint note, was launched on April 1, 1999. Prior to August 31, 1999, participants of cash transactions suffered some inconvenience on account of the simultaneous use of both the old and new type of 5,000, 1,000 and 500-forint notes, issued a year earlier.

While the value of notes in circulation rose by HUF 214.0 billion relative to the end of the previous year, the number of notes fell by 2 million. This decline was due to the following factors: 1) withdrawal of 100-forint notes; 2) the considerable number of older

5,000- and 500-forint notes not exchanged at the central bank for the new legal tender; and 3) the continued rise in the proportion of 10,000-forint notes.

With a share of 33.5% at the end of 1999, the 10,000-forint note, representing a new denomination and the first member of the new banknote series, can boast of having the highest number of notes in circulation (see Table IX-2). Relative to the end of the previous year, this denomination raised its share within all banknotes in circulation by over 10 percentage points, in terms of both quantity and value.

Table IX-2 Notes in circulation on December 31, 1999

Denomination (forint)	Quantity (million)	Value, (HUF millions)	Distribution, per cent	
			Quantity	Value
10,000	67.5	674,609	33.5	72.4
5,000	34.0	170,218	16.8	18.3
2,000	13.6	27,263	6.7	2.9
1,000	45.3	45,323	22.5	4.9
500	18.1	9,047	9.0	1.0
200	23.2	4,644	11.5	0.5
Total	201.7	931,104	100.0	100.0

2.3 Coin in circulation

The National Bank of Hungary withdrew the 50-fillér coin from circulation, effective as of September 30, 1999, to be exchanged for currency in circulation until March 31, 2000. Nevertheless, it is still possible to use the fillér in calculations and to divide the forint into 100 fillér.

In the wake of the withdrawal of the large-size 100-forint and 200-forint coins, as well as the 50-fillér coins in 1998 and 1999, respectively, the number of coin denominations in circulation fell to seven.

The withdrawal of the larger 100-forint and 200-forint coins was completed in the course of 1999, leaving 16 million pieces, worth over HUF 2.5 billion, in the possession of individuals after the expiry of the con-

Table IX-3 Coin in circulation by denomination

Denomination (forint)	Quantity (million)	Value (HUF millions)	Distribution, per cent	
			Quantity	Value
100	99.4	9,941	7.1	55.4
50	49.1	2,457	3.5	13.7
20	109.1	2,182	7.8	12.2
10	132.7	1,327	9.5	7.4
5	153.5	768	11.0	4.3
2	393.5	787	28.1	4.4
1	462.1	462	33.0	2.6
Total	1,399.4	17,924	100.0	100.0

version deadline. Of this amount, HUF 1,762 million was recorded as a profit in 1999, reducing the public debt, pursuant to the provisions of Act LX of 1991 on the National Bank of Hungary.

The number of coins in circulation at end-1999 was 149 million pieces less than a year earlier (down by 9.6%). This decline was caused mainly by the withdrawal of the 50-fillér coins, which accounted for a significant, 19% share of total coin in circulation in terms of quantity, but for merely 0.8% in terms of value. In late 1999, over 70% of the number of coin in circulation were comprised of the three smallest denominations, which corresponded to an 11% share in value terms (see Table IX-3).

The changes in the shares of the different coin denomination in terms of number and value highlights the rising need for lower denominations similar to the previous year.

Relative to a year earlier, the total value of coin in circulation rose by 1.1% (HUF 0.2 billion), consisting of +2.0% growth in circulation and a -0.9% fall caused by the withdrawal of the 50-fillér coins.

3 Cash turnover and processing activity

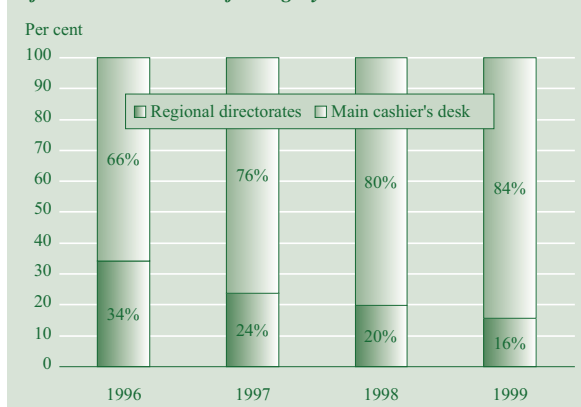
Against the background of the rising value of notes and coin in circulation, the value of transactions at the Bank's cashier's desks dropped by 19% as a result of the cash handling and exchange charges introduced in October 1998.

The Main Cashier's Desk of the National Bank of Hungary, together with the cashiers' desks at the eight regional offices, recorded turnover of HUF 3,052 billion during 1999, down HUF 696 billion on the preceding year. Of this, the central bank's cash registers received payments amounting to HUF 1,419 billion, down 22% on a year earlier. Cash outflows from the Bank's cashier's desks amounted to HUF 1,633 billion, down 16% on the previous year.

The trend emerging in 1998 of a concentration of cash transactions in Budapest continued in 1999 (see Chart IX-4). Having analysed the regional distribution of cash transactions, the central bank has restructured its network outside of Budapest, cutting the number of regional directorates from eight to four as of 1999.

Over the past three years each note in circulation passed through the Bank's note processing units 2.5 times on average. In the process, the notes were checked for suitability and authenticity. This figure fell to 1.9 in 1999 in the wake of a 28% drop in the number of notes paid in at the central bank's cashiers' desks. This decline is explained by the introduction of cash handling

Chart IX-4 Cash transactions at the cashier's desks of the National Bank of Hungary

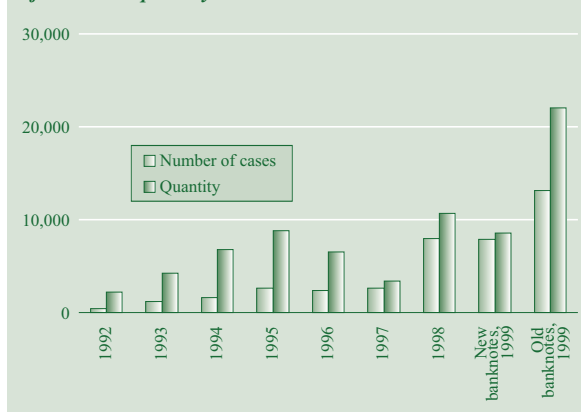


and exchange charges and better composition of the new banknote series in terms of denomination. The fall in velocity does not imply more lax inspection of notes in circulation as there is also stringent business-based processing of notes outside the central bank by organisations with money processing licenses, operated within a regulated framework since 1997.

4 Counterfeits

The quantity of counterfeit notes and the number of cases rose sharply in 1999 compared with previous years, with 152 counterfeits per one million notes in circulation, compared with 54 a year earlier. Nearly 70% of the counterfeits detected were the old type of 5,000-forint note, with most of these put in circulation after April, following the announcement of the withdrawal of the denomination. This prompted the central bank to reschedule the withdrawal deadline for July 26, 1999 in order to prevent further spread of existing counterfeits, produced largely by a planographic printing technique (see Chart IX-5).

Chart IX-5 Forint counterfeits: number of cases and quantity



Counterfeiting of the denominations of the new banknote series was not significant in 1999, and those produced by unsophisticated office equipment can be easily recognised thanks to the high-quality security elements on the notes. Approximately one-fourth of all counterfeits were seized by the police, the rest having been detected in normal circulation.

The number of foreign currency counterfeits seized in the course of 1999 declined by 21% over the previous year, with the number of cases down by 26%.

5 Issue of commemorative coin

In the course of 1999, the National Bank of Hungary issued one gold and five silver commemorative coins.

First, a 31.46-gram silver coin of 925‰ purity, with a face value of HUF 75, was issued to commemorate the 75th anniversary of the establishment of the National Bank of Hungary. On its face, the coin depicts Juno Moneta.

A commemorative coin entitled “Integration into the European Union, 1999” was issued as the sixth in a series of coins launched in 1993 in the framework of an in-

ternational scheme. The 31.46-gram silver coin of 925‰ purity, with a face value of HUF 3,000, depicts the statue of Saint Gellért.

To commemorate the 1000th anniversary of the foundation of the Hungarian state, the central bank brought out a gold and a silver commemorative coin, depicting the Holy Crown. Both coins are highly sought after by collectors on account of their beautiful craftsmanship and timely message. The gold coin with a face value of HUF 20,000 weighs 6.982 grams and is of 986‰ purity.

The 31.46 gram silver coin with a face value of HUF 3,000 is of 925‰ purity, with a gold-coated central part, and the inscription MILLENNIUM running round its edge. The back side depicts the rose-window in the chapel at the royal palace in Esztergom.

To commemorate the Olympic Games to be held in Sydney in 2000 the Bank has issued a 20 gram, 925‰ purity silver coin with a face value of HUF 2,000, depicting an athlete throwing a hammer.

To mark the millennium, the Bank has issued a heptagonal silver coin, which is made of 925‰ purity silver and weighs 20 grams. On the face of the coin, there are the years 1999 and 2000, set inside a hologram. The back depicts the figure of a man reminiscent of Rodin’s “The Thinker”.

X. Payments and clearing and settlement systems

1 Payments

1.1 Bank accounts

In 1999, Hungarian credit institutions managed 7.8 million bank accounts, 7.5 million of which were held by entities qualifying as domestic for the purposes of foreign exchange regulations (residents) and 250,000 by entities qualifying as foreign for the purposes of foreign exchange regulations (non-domestic residents). The number of mandatory bank accounts opened by resident organisations and individual entrepreneurs was over 900,000, and that of accounts held by households in excess of 6.6 million. While the bulk of the accounts (6.2 million) were denominated in forints, there was still a considerable number of foreign exchange accounts (1.6 million).

The volume of domestic forint-denominated transactions indicates that in terms of value, transactions continue to be dominated by transfers. In addition, cashless payment instruments and multiple collection orders also accounted for a large share, with the share of cheques, letters of credit and immediate collection being negligible.

The number of clearing and settlement orders in the interbank clearing system saw a major change in 1999, with a surge in multiple transactions and a simultaneous decline in single transfers.

1.2 Cashless payment instruments

1.2.1 Transactions with bank cards

The number of bank cards in Hungary, which were first introduced in the late 1980s, has been increasing steadily. The 3.8 million cards in circulation in late 1999 outnumbered the figure for the same period a year earlier by 31%.

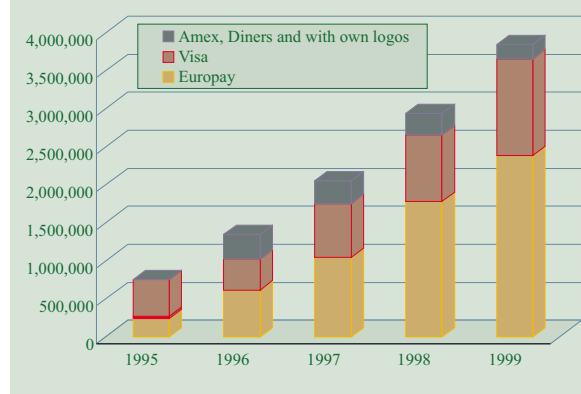
The quantity of international Visa and Europay cards has continued to rise, accounting jointly for 95% of all

cards. The remaining 5% is divided among Diners and Amex, and, to an ever decreasing extent, cards issued under individual commercial bank logos, accepted only in the ATM and POS networks of the issuer (*see Chart X-1*).

Bank cards continue to function mostly as debit cards, but the share of credit and charge cards quadrupled in the course of one year, accounting for 4% of the total by late 1999. The number of co-branded cards, which appeared a few years ago, offering commercial discounts, remains negligible.

In 1999, cards issued by Hungarian banks were used for cash withdrawal or purchases in transactions worth HUF 1,690 billion, with 98% of this amount occurring in Hungary. While the total value of transactions rose by 52% relative to the previous year, their quantity was up only by 29%, a little behind the number of cards in circulation, implying an overall flat rate in the frequency of card use (two transactions per month). The average value per transaction rose by 26% to HUF 19,424. As far as customer habits are concerned, cards in Hungary appear to be still predominantly used for cash withdrawal (accounting for 94% of all transactions), in contrast to travellers abroad, who use their cards for making payments (cash withdrawal accounting for 37% of all transactions).

Chart X-1 Number of bank cards by type of cards



Foreigners charged a total of HUF 187 billion to their cards in Hungary in the course of 1999, to settle purchases of goods or services on 70 occasions out of a hundred. In value terms, this was double the figure for a year earlier, with the number of transactions rising by 42%. Given that compared to the previous year the number of foreign visitors to Hungary and revenues from tourism in 1999 fell by 14% and 2%, respectively, the reason for the spectacular rise in the number of transactions should be sought partly in visitors' changing payment habits and partly in the rising standards of the Hungarian credit-card business (*see Chart X-2*).

It is a unique feature of the Hungarian system, that electronic cash withdrawal is enabled not only by means of ATMs (cash dispensers), but also POS terminals placed at bank branches and post offices. The number of ATMs is on a steady rise, with 2,358 machines operating in Hungary at end-1999 (up 13%), one-third of these located in Budapest. The same services are provided by the 3,518 POS terminals at 2,517 bank branch offices (including savings co-operatives), as well as the 4,246 electronic terminals located at post offices.

It is more and more typical of retail outlets that issuers encourage the use of safer electronic payment facilities. In 1999, the number of imprinters enabling manual acceptance decreased by 26% (to 11,908), while the number of electronic facilities rose by 14% (to 20,643).

For the purchase of goods or services, Europay cards are accepted at 14,971 locations, Visa cards at 15,657 locations, Diners at 4,079 locations and Amex at 7,012 locations.

Last year saw some positive changes in the area of card misuse, despite the world-wide rise in the use of cloned or duplicated cards. The lower number of such incidents can mainly be attributed to growing awareness

by banks of the need for co-operation and the promotion of risk management methods with assistance from international card companies.

1.2.2 Cheques

The validity of cards with eurocheques attached expired at the end of 1999, marking the termination of eurocheque issue in Hungary. In the course of 1999, customers cashed only 182 such cheques, worth HUF 8 million. By contrast, foreigners cashed 85,000 cheques amounting to approximately HUF 3.8 billion, but that was also only half the figure for the previous year.

The number of guaranteed cheques issued and accepted solely in Hungary also fell to less than half (to 43%). Altogether 42,000 cheques were used for transactions, totalling HUF 692 million, down 43% on a year earlier.

This considerable decline is chiefly attributable to the fact that cheques have never become widespread in Hungary, and the appearance and rapid advance of bank cards over the course of the past few years have all but crowded them out of the market.

2 Clearing and settlement systems

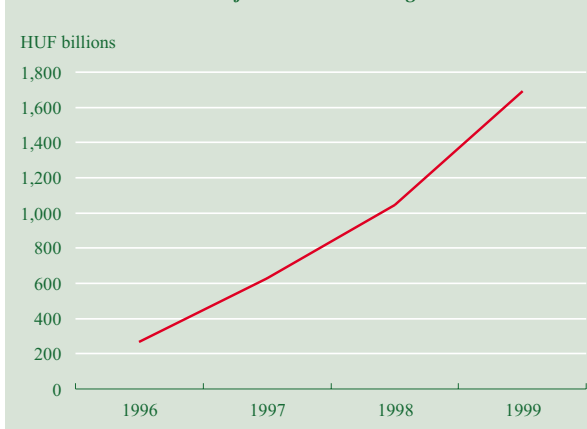
2.1 Systems supporting clearing and settlement

Interbank clearing of payment transactions is effected under two systems in Hungary:

- Interbank clearing of payment transactions for large sums is effected by the National Bank of Hungary, partly through the traditional central bank accounting system and since September 1999, predominantly through the Real Time Gross Settlement System (VIBER).
- Payment orders (for both small and large amounts) placed by bank customers are carried out by the Interbank Giro System (IGS) operated by Giro Elszámolásforgalmi Rt.

A milestone in the development of payment systems in 1999 was the introduction of VIBER. The first three quarters of the year were dominated by the instalment and testing of the selected system, preparation of would-be VIBER members, establishment of the rules and harmonisation with KELER's real time system. All arrangements were concluded by the deadline of September 3, 1999, and the system was set in operation according to schedule.

Chart X-2 Total value of transactions using bank cards



In addition to the National Bank of Hungary, the direct membership includes 41 organisations (a number of credit institutions, the Hungarian Treasury and KELER), while the majority of co-operatives and a few specialised credit institutions participate indirectly (as correspondents) with the mediation of the Savings Bank and the central bank.

VIBER primarily facilitates urgent forint payments related to monetary policy, the operation of money markets, as well as other high-value payments. The system is linked to the SWIFT communications network. Payment orders are executed finally and irreversibly following their submission during the business day, of which VIBER members are notified in real time. This enables banks to engage in more efficient liquidity management than previously.

In 1999, VIBER was operated at a reduced level of functionality, dealing only with interbank transactions, forint payments arising from securities settlements as well as central bank items. The introduction of customer transactions was postponed by the Bank until 2000 mainly on account of the preparations for the Y2K date change.

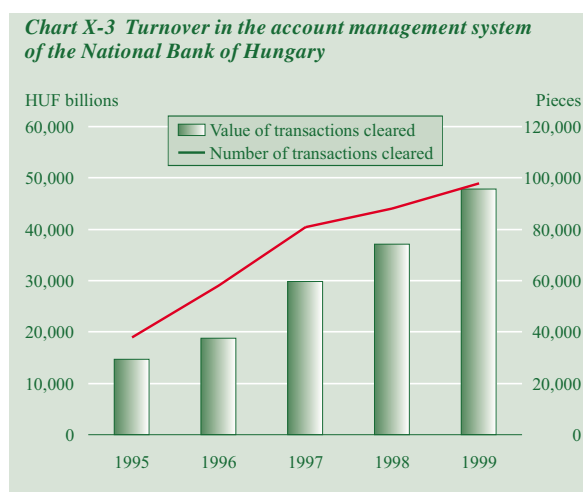
The real time securities settlement system developed by KELER Rt. and launched on September 6, 1999 has an automatic link with VIBER. Comprehensive development of the payment system enabled the settlement of securities transactions in real time and gross terms, which fully implements the Delivery Versus Payment principle, an advanced arrangement even by international comparison. Replacing the former multiple processing, processing by individual transactions as well as immediate notification of the partners to the transaction both on the securities and payment sides gave considerable momentum to this market, enabling more than one transaction to be made in connection with the same security within one business day.

2.2 Turnover

2.2.1 Payments made via the systems of the National Bank of Hungary

In 1999, payments made via the Bank's settlement system rose by 11% (98,000 transactions) in terms of numbers, with total turnover up 28% (HUF 48,000 billion) on a year earlier (*see Chart X-3*).

As a result of the fact that turnover increased at a higher rate than the number of transactions, the value per transaction rose by 16% to HUF 488 million.



The greatest increase occurred in the settlement of securities transactions (OTC, repo, stock exchange net settlements, fix-priced deals, etc.), undergoing a one-and-a-half-fold expansion both in terms of turnover and number of transactions as compared with the figures for the period prior to the establishment of VIBER.

2.2.2 Interbank Giro System (IGS)

Credit institutions can join IGS directly or indirectly via correspondent banks. The number of direct clearing members rose sharply in 1999, from 45 early in the year to 55 at the year-end. As almost all of the major savings co-operatives elected to become direct members, it was basically the co-operative sector that accounted for the growth in the number of members.

As in previous years, the number of cleared transactions also increased considerably to 102 million, up 64% on a year earlier. The value of cleared transactions rose by 11% to HUF 37,213 billion.

The average value per transaction fell from HUF 510,000 in 1998 to HUF 362,000, in evidence of the rise in the number of predominantly low-value multiple payments.

Breaking down the number of transactions, conventional single transfers continued to account for the bulk of the transactions (73%), with the number of multiple transactions rising sharply in the course of 1999 and accounting for 25% of the total. The remaining 2% was divided among other less and less prevalent payment methods (such as collection, clearing cheques, etc.).

Single transfers accounted for 97% of the total value of cleared transactions, while the essentially low-value multiple orders accounted only for 1%. The remaining 2% were divided among other payment methods (*see Chart X-4*).

Chart X-4 Turnover of the interbank clearing system

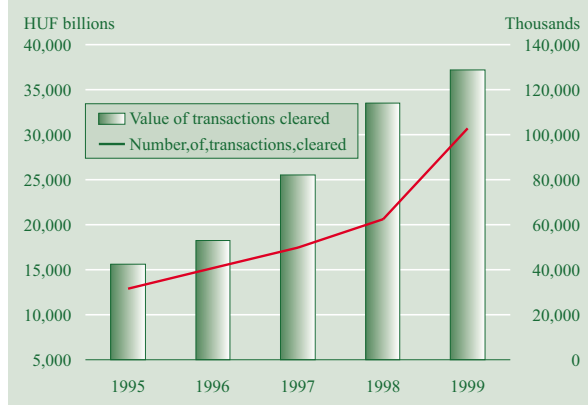
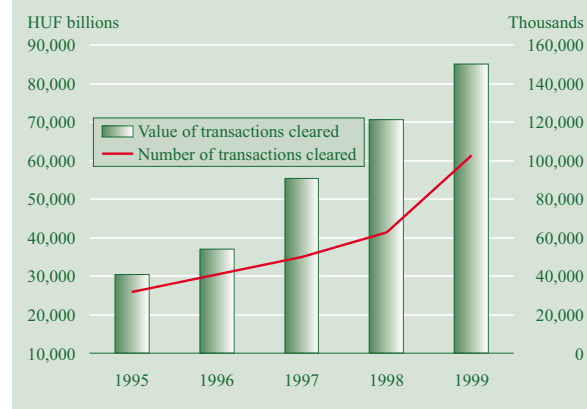


Chart X-5 Turnover of the interbank clearing systems (National Bank and IGS)



2.2.3 Turnover of the interbank clearing systems

The turnover of the interbank clearing systems (notably, the National Bank of Hungary's account management system and the Interbank Giro System) expanded in terms of both the number and value of transactions relative to 1998.

However, the rate of growth in terms of value dropped slightly compared to the preceding years, but increased in terms of numbers, due to the above-noted rise in the number of multiple transactions (see Chart X-5).

In the course of 1999, transactions worth HUF 85,000 billion were processed by the two clearing systems, up by more than 20% on a year earlier. The number of cleared transactions rose by 64% as a result of the large-scale expansion of the Interbank Giro System.

The average value per transaction fell from over HUF 1 million a year earlier to HUF 826,000, a change attributable to the fact that the increase in the average size of individual transactions cleared in the Bank's account management system was offset by the decline in the same settled by the IGS system.

The introduction of VIBER induced no major change in the share of clearing turnover between the IGS and the central bank, as for the time being VIBER has only taken over payment transactions that were previously settled within the Bank's clearing system. Only since March 2000 have bank customers been enabled to place orders in the real-time gross settlement system for high-value payments.

Annual turnover of the two systems amounted to over seven times the value of GDP in 1999, a small rise (0.25%) compared with the previous year.

2.2.4 Securities settlements

The Central Clearing House and Depository (KELER Rt.) spent 1999 steadily developing its services. Its key project has been the establishment of the real-time gross settlement system, a key event in the history of the Hungarian money and securities markets.

The volume of dematerialised securities continued to increase in terms of both value and number in 1999. The first such government security was issued in April 1999. Since then the Hungarian Treasury has been issuing bonds and Treasury bills exclusively in dematerialised form. There is an ongoing conversion of certificated bonds.

Turnover in the spot market of the Budapest Stock Exchange continued the upward trend (increasing by 16% relative to a year earlier) and exceeded HUF 16,000 billion (double counted).

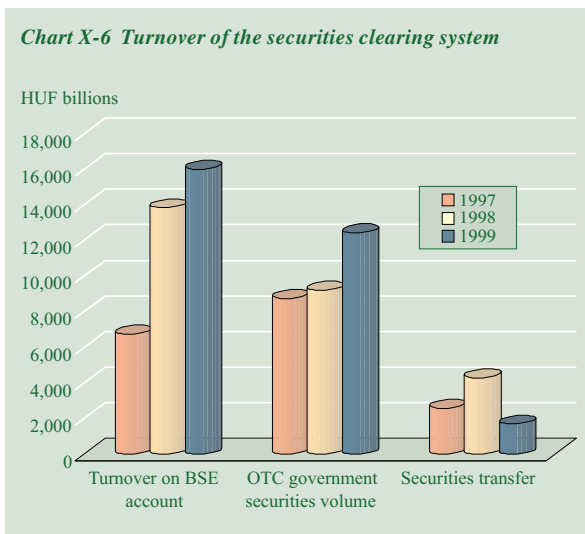
The introduction of dematerialised government securities in April necessitated a separation on the securities accounts (that is, the separation of the securities held by brokers from those held by customers), which took place in July. In November, the Budapest Stock Exchange launched auctions, settled by KELER on a gross basis. KELER has also updated its systems to facilitate longer clearing hours in conformity with the stock exchange opening hours which were extended in 1999.

The volume of transactions off the stock exchange increased markedly, exceeding 41,000 in number terms (a rise of over 40%) and HUF 12,435 billion (a rise of 35%) in value terms (see Chart X-6).

The introduction of VIBER brought about radical changes in the clearing of such transactions. Settle-

ment was transferred to real time and transactions linked to DVP compliance are now concluded automatically, provided that the necessary cover is available in terms of either funds or securities. The current state of individual transactions can be checked at any time, and items not concluded are listed in order; members are allowed to freely change the priority of non-concluded transactions or even cancel any of them. KELER is also playing a major role in the Bank's nation-wide VIBER system, as the liquidity management of VIBER members is based on limit management through freezing or unfreezing of government securities, facilitated by the connection between the two real time systems.

The range of securities that can be cleared has also widened. In addition to government securities, the gross settlement service of KELER has now also been extended to all types of securities issued in Hungary. Simultaneously, since May 1999, Hungarian depository bank customers have also obtained access to securities clearing services off the stock exchange based on the DVP principle and settlement on the same day.



Turnover in futures deals declined sharply in 1999, both on the Budapest Stock Exchange and the Commodity Exchange mainly because market participants were not able to overcome the adverse effects of the previous year and the severe losses discouraged them from opening up positions. It should be noted, however, that the total value of the physical settlements of government security and share contracts exceeded HUF 1 billion.

Here the key development has been the introduction of the physical settlement of BSE futures stock and notional contracts. The fact that there have been no occur-

rences of non-settlement indicates the preparedness of the market.

The most important achievement in the field of international settlements is that under the terms of a foreign exchange licence granted by the National Bank of Hungary, KELER now offers its direct securities account holders DVP services on its securities and money accounts held with Clearstream (formerly CEDEL International).

3 Regulations

In the course of regulating payment systems, the National Bank of Hungary placed the greatest emphasis on the needs of monetary transactions, while simultaneously satisfying its commitments to legal harmonisation with the EU. This constituted the framework for *Government Decree 77/1999 (V. 28.)* on the rules governing the use and issuance of electronic payment facilities. The decree provides a definition of the term "electronic payment facility" on the basis of Commission Recommendation 97/489/EC, in addition to determining the minimum elements to be included in the contract between issuer and holder and setting the obligations and responsibilities linked to the issuance and use of electronic payment facilities.

At the proposal of the central bank, *Government Decree 183/1999 (XII. 13.)* was passed in December 1999, amending Council of Ministers Decree 39/1984 (XI. 5.) on payment transactions and bank credit. The amendment constitutes the harmonisation of the settlement regulation laid down in the government decree with the Civil Code as of July 1, 2000. The analogous regulation of the Civil Code on the settlement of debt gives the settlement date of an outstanding account as the time when the sum is credited to the payee's account, instead of when it is debited to the payer's account. In terms of the other important rule, the amendment has resolved previous uncertainties surrounding court restraint procedures, in the event of insufficient funds in the debtor's account. Accordingly, a collection order submitted against a bank account will now affect each bank account of the debtor held by the same bank, including any foreign exchange accounts.

It was in part the above two regulations and in part certain technical changes of smaller significance that prompted the issue of the *NBH Decree 4/1999 (MK. 106.)* on the amendment of NBH Decree 6/1997 (MK. 61.) on payment transactions. The amendment establishes, *inter alia*, credit institutions' obligation to preserve vouchers, the rules pertaining to the reception of orders, as well as the mandatory notification of customers of the time of prospective settlements.

4 Preparations for the millennium date change

The Y2K problem called for comprehensive precautionary measures by the financial sector, which appeared to be the sector in the gravest danger, as it is highly dependent on information technology.

The National Bank of Hungary, the institution responsible, in conjunction with the Hungarian Banking and Capital Market Supervision, for the safety of clearing and settlement transactions, played a key role in preparing settlement systems for the date change and in monitoring the preparation of participating credit institutions.

NBH Decrees 8/1998 (MK. 116.) and 9/1999 (MK. 80.), in amendment of NBH Decree 6/1997 (MK. 61.) on payment transactions, set forth the minimum requirements for preparation, fulfilment of which was continuously monitored by the Bank.

Monitoring primarily centred on the main participants in payment transactions, such as credit institutions and clearing houses, which also enabled the monitoring of customers linked electronically to the credit institutions, who conduct a high number of transactions.

Just like elsewhere in the world, the Hungarian financial sector appears to have entered the year 2000 with no major problems.

XI. Hungary's relations with international financial institutions

1 Hungary's relations with international financial institutions

1.1 International Monetary Fund

On September 23, 1997, the Board of Governors of the International Monetary Fund passed resolution No. 52-4 on the fourth amendment to the IMF Articles of Agreement, providing for an extraordinary one-off allocation of Special Drawing Rights (SDR). This decision was aimed at eliminating the discrepancies in the proportion of the allocated SDRs relative to the quota subscriptions of member countries. The new issue doubles the former volume of SDRs, and for all members brings the net cumulative SDR holdings of the member countries to their subscription quotas of 1997 to 29.32%. The resolution becomes valid when it is approved by three-fifths of all member countries, accounting for 85% of all the votes.

The related parliamentary decree was passed in 1999 in Hungary, and this was reported to the IMF through the appropriate channel. As the last allocation of SDRs goes back to 1981, before the date of Hungary's entry to the IMF, this will be the first time for Hungary to receive a share of the SDRs. On this occasion, Hungary is to receive SDR 221.3 million to boost the international reserves of the National Bank of Hungary.

The fact that the IMF included the forint in its operative budget for the period between December 10, 1998 and February 28, 1999 implies Hungary's admission to the group of member countries regarded as sufficiently strong in terms of the general economic situation and international reserves to use their currencies. As a result of the Fund's use of Hungary's subscription capital, the country's reserves held by the IMF – part of our international reserves – amounted to SDR 176.8 million¹ on December 31, 1999.

In 1996, Hungary was one of the early entrants to the group of members making voluntary use of the Fund's Special Data Distribution Standards (SDDS). As a consequence, information on the content and publication of Hungarian economic and financial statistical indicators has become available on the IMF-run table of Data Distribution Standards on the Internet. Hungary satisfied all the criteria set by the SDDS by the deadline of December 31, 1999.

The Fund has a resident delegate in a number of countries, and its Hungarian representation, set up in 1991, has been a regional office since 1999.

The Fund holds annual economic policy consultations with Hungary under Article IV of the Articles of Agreement. The summary of the debate by the board of directors on the 1998 expert report was published on March 4, 1999 (Public Information Notice No. 99/16).

Box XI-1

Main features of relations between Hungary and the International Monetary Fund

Hungary joined the Belgian country group of the International Monetary Fund on May 6, 1982.² The IMF set Hungary's quota subscription at SDR 375 million, which was raised to SDR 1,038.4 million by February 8, 1999 in the course of three general quota increases following entry. As of January 1, 1996, Hungary has satisfied the convertibility requirements pertaining to current account items of the balance of payments, as laid down by Article VIII of the Articles of Agreement.

¹ 1 SDR = USD 1.3725 on December 31, 1999

² Current members include Austria, Belorussia, Belgium, the Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey.

Table XI-1 Hungary's credit agreements with the International Monetary Fund

Date	Type	Maturity	Amount	Drawing
			millió SDR	
March 14, 1990	Standby agreement	12 months	159 m SDR	127,4 m SDR*
January 19, 1991	Compensation agreement	One-off drawing		265,0 m SDR**
February 20, 1991	Extended agreement	36 months	1,114 m SDR	557,2 m SDR***
September 15, 1993	Standby agreement	15 months	340 m SDR	56,7 m SDR****
March 15, 1996	Standby agreement	23 months	264,18 m SDR	- [†]

* The last instalment of SDR 31.84 million was cancelled because of the latest three-year agreement.

** Because of overcompensation, there was repayment worth SDR 90.1 million in March 1992.

*** Hungary drew a total of SDR 557.2 million; the agreement was cancelled on account of the new standby credit.

**** This is the first instalment drawn on approval; there were no more drawings.

[†] On making the agreement, the Hungarian government indicated that it did not intend to draw the credit.

Since joining the IMF, Hungary has borrowed SDR 2,193.7 million from the Fund. The loans were fully repaid by February 1998, partly via extraordinary pre-deadline debt servicing (1995, 1996, 1998).

1.2 International Bank for Reconstruction and Development (World Bank)

Since becoming a member in 1982, Hungary has made 42 loan agreements with the World Bank, borrowing more than USD 4 billion. The loans are made to the government or under government guarantee on favourable (but not preferential) terms. Of these loans, which are usually claimed in accordance with the implementation schedule of investment projects, USD 3 billion were drawn up to December 31, 1999. In the course of 1999, loans worth USD 26 million were made in conjunction with various investment schemes. Of World Bank-financed schemes, 34 have been completed so far. There have been continuous cancellations of the unused or superfluous portions of the credit.

In the course of 1999, two new loan agreements were made amounting to USD 30.8 million, aimed at modernisation of the sewage works in Budapest and Dunaújváros.

The Prime Minister's Office received non-repayable funds totalling USD 450,000 on three occasions to help prepare for the Y2K date change.

Hungary has been involved in broad ranging co-operation with the World Bank for many years. There are collaborations in the preparation and debate of studies, and generally in specialist consultations promoting the establishment of proper economic conditions. These consultations also serve to lay the groundwork for World Bank lending.

In 1999, the World Bank updated its country aid strategy on long-term lending and co-operation, approved in early 1998. The country profile customarily made every two or three years was completed by November 1999, focusing on entry to the European Union. Preparation of a comprehensive survey on local government financing is also under way.

1.3 European Bank for Reconstruction and Development (EBRD)

The EBRD was founded in 1991 to support regional development projects. It aims to promote the establishment and advancement of market economies in Central and Eastern Europe as well as to encourage private and entrepreneurial initiative. The Bank may lend to both state-owned and privately-owned companies, and make capital investment and guarantees to beneficiaries. Hungary is one of the founding members of the EBRD.

The activities of the European Bank for Reconstruction and Development are carried out within the framework of country strategies devised for individual countries and updated once every one or two years, on approval by the Board of Directors. The country strategy relating to Hungary was last updated in 1999. The EBRD has so far financed over 60 projects in Hungary, the bulk of them (around 90%) in the private sector. In the course of 1999, the EBRD participated in financing Hungarian projects by lending and capital investment worth EUR 44 million. These included quotation for shares issued by the National Savings Bank (OTP Rt.), which, together with the subordinated loan capital acquired in 1996, made the Bank a major stockholder in OTP.

Furthermore, the EBRD is making loans to finance electric steel manufacturing capacity at the Ózd Steelworks, and construction work at the rail switching yard in Soroksár. The recipient of the latter loan of EUR 10 million was the State, while the entity in charge of implementation is the Hungarian State Railways (MÁV), and part of the financing is contributed by the EU via an EUR 4 million aid made available through the Phare Programme. In 1999 the Loan and Guarantee Agreement on restructuring the Motorway M1/M15 project, approved in 1993, was signed. According to the terms of the agreement the government guarantees repayment of the loan and its attachments.

1.4 European Investment Bank (EIB)

The EIB, which is mainly engaged in financing major infrastructure-development projects within the European Union, launched its Hungarian activities under a general agreement made with the National Bank of Hungary in 1990. In 1994, the Republic of Hungary and the EIB signed a general agreement on financial co-operation. In 1997, the Republic of Hungary concluded another more comprehensive general agreement with the EIB on the Bank's Hungarian activities.

The EIB has funded 25 Hungarian projects since 1990 totalling EUR 1,452 million. Of this, EUR 1,001 million have been extended so far. In 1999 drawings amounted to EUR 273 million.

The financing agreements, worth EUR 170 million, for projects signed in the course of 1999 were not guaranteed by the government. DENSO received EUR 35 million, Raiffeisen Bank EUR 30 million, Debreceni Kombinált Ciklusú Erőmű Ltd. EUR 15 million, Borsodchem EUR 20 million, Bank Austria Creditanstalt EUR 20 million and MOL Rt. EUR 50 million.

1.5 International Finance Corporation (IFC)

The International Finance Corporation is a member of the World Bank. Hungary joined the IFC in 1985. In the period between 1987 and 1999, the Corporation funded 32 projects in Hungary totalling approximately USD 360 million. In the course of 1999, the IFC approved two Hungarian projects worth about USD 14 million, the financing structure of which is to be finalised later.

1.6 International Development Association (IDA)

The International Development Association (IDA) is another member of the World Bank, established to provide aid-type loans for poorer developing countries. Hungary joined the IDA as a donor country in 1985. Lending by the IDA is primarily financed from funds replenished by non-refundable contributions provided by donor countries once every three years.

Negotiations on the latest, the 12th, replenishment of the funds were concluded in November 1998. This was followed by a vote taken on April 8, 1999 by the World Bank Governing Council on replenishing the IDA funds by SDR 8.6 billion, implying the obligation for the donor countries to subscribe the funds they have undertaken for the next three years from July 1, 1999.

Under the Parliamentary Resolution 75/1999 (X. 22.), Hungary will contribute 0.06% of the funds for the

12th replenishment, preserving its share contributed at the previous replenishment.

1.7 Environmental funds

The aim of the Global Environmental Fund (GEF), established in October 1991 by the UNDP and the UNEP, two specialised environmental organisations of the World Bank and the United Nations, is to prevent the emergence of regional environmental problems and mitigate the effects of such. Operated in the legal framework of the World Bank, the GEF functions as a source for financing selected environmental projects by means of non-repayable aid provided from the funds subscribed by the donor countries. Hungary joined the GEF in May 1993 (not as a donor country) to apply for aid to finance environmental expenses. The first GEF-financed scheme in Hungary received funds of USD 6.9 million to assist in the replacement of substances destroying the ozone layer. In 1997 a guarantee fund of ECU 5 million was set up by the GEF to support energy saving projects financed by the IFC in Hungary. The Fund is also expected to participate in further environmental programmes financed by the World Bank or the IFC.

In 1999, organisation of another similar environmental fund aimed at mitigating the adverse effects of climatic changes was launched. The Prototype Carbon Fund is to be managed by the World Bank. Hungarian projects that satisfy the criteria will also receive support in the future.

2 Hungary's relations with international organisations

2.1 OECD

The OECD is the most important economic policy forum of industrialised countries. Hungary's first official link with the organisation dates back to 1991 in the framework of the "Partners in Transition" scheme. In the next major step, Hungary joined the OECD's investment instrument, thereby gaining permanent membership in the OECD Committee of International Investment and Multinational Enterprises (CIME). After launching membership talks in 1994, Hungary became an official member of the OECD on May 7, 1996.

The fifth OECD national survey of the Hungarian economy was published early in 1999 (OECD Economic Surveys 1999 – Hungary). Following its traditional structure, the survey looks at the country's economic situation as well as its macroeconomic (monetary

and fiscal) policies. The chapter analysing structural policies focuses on national health care. The other OECD survey on Hungary deals with inward foreign direct investment flows. Until the mid-1990s the organisation regularly published studies on the trends of foreign direct investment in its member countries. This series is to be resumed by the FDI Review of Hungary, to be published in the spring of 2000. With a review of the 1990s, the report gives a regional and structural breakdown in terms of key investors as well as the incentives employed by Hungarian policy makers to promote FDI inflows.

At the initiative of the 1998 OECD ministerial meeting, in the autumn of 1999 the organisation launched a review of its Guidelines on multinational companies in an effort to tailor them to the international trends and requirements. The review is to be concluded by the ministerial meeting to take place in the spring of 2000. These Guidelines on the activities of multinational firms contain recommendations issued by the OECD member countries aimed at co-ordinating such activities with the regulatory environment of the individual countries. Complying with the Guidelines is a voluntary process with no statutory obligations involved. The norms set down cover most aspects of the operation of multinational firms, such as taxation, transparency in the dissemination of information, compliance with competition rules, environmental protection, research and development, employment and industrial relations.

The other objective of the OECD conference was to formulate guidelines and standards relating to corporate governance in conjunction with the national governments, other international organisations as well as the private sector. Such guidelines are aimed at providing assistance for both members and non-members in their efforts to assess and improve the statutory, institutional and regulatory framework of corporate governance as well as provide guidance for the private sector.

2.2 European Union

Hungary launched membership talks with the European Union in the spring of 1998. In the first move in the period leading up to accession, a screening procedure was started in April 1998, the basic phase of which was concluded in July 1999. The phase of complementary screening will take place simultaneously with a review of compliance with earlier commitments. Except for two chapters which are to be discussed later Hungary had submitted all its negotiation positions by late 1999, thereby laying the groundwork for a new round of nego-

tiations to be launched from mid-2000 after opening all the chapters.

The negotiation chapters already open included those regarded as crucial by the National Bank of Hungary from the aspects of both accession to the EU and the preparation for the adoption of the euro as Hungary's official currency. (Economic and Monetary Union, Capital Movements, the Free Flow of Services- including Financial Services). National Bank experts have also collaborated in formulating the Hungarian position on the above chapters and have taken part in the related screening discussions. The negotiation chapter entitled Economic and Monetary Union was concluded in the course of ministerial talks of December 1999.

An updated version of the document entitled "National Programme for the Acceptance of the Acquis" was drawn up in the summer of 1999. This document covers all of the chapters of the membership talks and outlines the specific statutory and institutional projects together with their time schedules and cost requirements, as well the financing structure.

Assessing the degree of integration and preparedness of candidate countries, the updated national surveys of 1997, were published by the European Commission in October 1999. Giving a broadly positive evaluation, the report on Hungary stated that the country had satisfied the political criteria of membership, established a working market economy, appeared in the medium term capable of meeting the competitive challenges in the common market and had reached an adequate stage of legal harmonisation and adoption of EU laws.

In December 1999, at its Helsinki meeting, the European Council passed a decision on commencing membership talks with a further six countries (*Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia*) in the course of 2000, putting a greater emphasis on the principle of differentiation.

On January 1, 1999, eleven EU member states (*Austria, Belgium, Finland, France, the Netherlands, Ireland, Luxembourg, Germany, Italy, Portugal and Spain*) adopted the euro as the common European currency, marking the advent of the third phase of Economic and Monetary Union. For the time being, the euro functions only as an exchange on accounts, since the notes and coin are only to be put in circulation from January 2002. Under the guidance of the European Central Bank, the above countries have conducted a unified monetary policy since 1999. The new exchange rate mechanism (ERM II) was also founded in early 1999 with the current participation of the Danish crown and the Greek drachma.

XII. Important financial legislation prepared with the collaboration of the national bank of Hungary

- Act III of 1999 on the Amendment of Act CXII of 1996 on Credit Institutions and Financial Enterprises;
- Act XXXVIII of 1999 on the Amendment of Act CXLIV of 1997 on Business Associations;
- Act LVII of 1999 on the Amendment of Act LXXVIII of 1991 on Consumption Tax and Consumer Price Subsidies;
- Act LX of 1991 on the Amendment of Act XL of 1995 on Public Procurement;
- Act LXXXVIII of 1999 on the Amendment of Act XCI of 1990 on the Rules of Taxation;
- Act XCV of 1999 on Small- and Medium-Sized Enterprises and the Promotion of their Development;
- Act XCIX of 1999 on the Amendment of Certain Acts on Taxation, Contributions and Other Fiscal Revenues;
- Act CVIII of 1999 on the Census of 2001, as well as the Amendment of Act XLVI of 1993 on Statistics;
- Act XCVIII of 1999 on the Amendment of Act XXXIX of 1995 on the Sale of State-Owned Entrepreneurial Assets;
- Act CXX of 1999 on the Amendment of Penal Laws;
- Act CXXI of 1999 on Chambers of Commerce;
- Act CXXV of 1999 on the 2000 Budget of the Republic of Hungary;
- Government Decree 17/1999 (II. 5.) on Contracts made by the parties via means of telecommunications;
- Government Decree 18/1999 (II. 5.) on terms regarded as dishonest in contracts with consumers;
- Government Decree 19/1999 (II. 5.) on the Supplement to Government Decree 217/1998 (XII. 30.) on the Working Order of General Government and Government Decree 217/1999 (XII. 27.) on the Amendment of Government Decree 217/1998 (XII. 30.) on the Working Order of the General Government;
- Government Decrees 29/1999 (II. 12.), 200/1999 (XII. 27.) and 220/1999 (XII. 28.) on the Amendment of Government Decree 161/1995 (XII. 26.) on the Execution of Act XCV of 1995 on Foreign Exchange;
- Government Decree 33/1999 (II. 26.) and Government Decree 219/1999 (XII. 28.) on the Amendment of Government Decree 45/1996 (III. 25.) on the Execution of Act C of 1995 on Customs Law, Customs Procedures and Customs Administration, as well as Government Decree 144/1999 (IX. 30.) on the Amendment of Government Decree 33/1999 (II. 26.) amending Government Decree 45/1996 (III. 25.) on the Execution of Act C of 1995 on the Customs Law, Customs Procedures and Customs Administration;
- Government Decree 60/1999 (IV. 21.) on the Amendment of Government Decree 267/1997 (XII. 22.) on the Investment and Management Rules of Voluntary Mutual Pension Funds and of Government Decree 268/1997 (XII. 22.) on Certain Management Rules Pertaining to Voluntary Mutual Health and Mutual-Aid Funds;
- Government Decree 77/1999 (V. 28.) on Certain Rules Pertaining to the Issue and Use of Electronic Financial Instruments;
- Government Decree 91/1999 (VI. 23.) and Government Decree 122/1999 (VIII. 6.) on the Amendment of Government Decree 106/1988 (XII. 26.) on Housing Subsidies;
- Government Decree 98/1999 (VI. 25.) and Government Decree 207/1999 (XII. 26.) on the Amendment of Government Decree 18/1997 (II. 4.) on the Characteristic Features of the National Bank of Hungary's Obligation to Prepare Annual Reports and Keep Books;
- Government Decree 154/1999 (X. 22.) on the National Statistical Data Collection Programme for 2000;
- Government Decree 183/1999 (XII. 13.) on the Amendment of the Council of Ministers Decree

- 39/1984 (XI. 5.) on Payment Transactions and Bank Credit;
- Government Decree 193/1999 (XII. 21.) on the Amendment of Government Decree 173/1997 (X. 6.) on the Mandatory Reporting and Bookkeeping Rules relating to Private Pension Funds;
- Government Decree 194/1999 (XII. 21.) on the Amendment of Government Decree 269/1997 (XII. 22.) on the Mandatory Reporting and Bookkeeping Obligations of Voluntary Pension Funds;
- Ministry of Finance Decrees 2/1999 (I. 29.), 13/1999 (VI. 3.) and 22/1999 (X. 8.) on the Amendment of Ministry of Finance Decree 25/1995 (X. 9.) on the Management of Country Risk;
- Ministry of Finance Decree 6/1999 (II. 10.) on the Amendment of Ministry of Finance Decree 42/1996 (XII. 8.) on the Order of Financial Services Settlement in the Hungarian Treasury, as well as Ministry of Finance Decree 36/1999 (XII. 27) on the Order of Financial Services Settlement in the Hungarian Treasury;
- Ministry of Finance Decree 29/1999 (XII. 10.) on the Amendment of Ministry of Finance Decree 29/1997 (IX. 3.) on the Issue of Public Dues Certificates and the Procedural, Issuance and Settlement Rules related to Public Dues Certificates;
- Ministry of Finance Decree 35/1999 (XII. 26.) on the Scope of Data to be Disclosed to the State Banking and Capital Market Supervision for Off-Site Inspections and the Method of Disclosure;
- Ministry of Economic Affairs Decree 21/1999 (IV. 28.) on the Detailed Regulations for the Utilisation and Management of Budget Chapter Appropriations for the Support of Active Employment Measures;
- Ministry of Economic Affairs Decree 22/1999 (IV. 30.) on the Amendment of IKIM Decree 36/1998 (VI. 10.) on Administration Services Charges for Certain Procedures Conducted by the Chambers of Commerce, as well as on Charges for Services Linked to the Issue of Certificates for Individual Entrepreneurs;
- Government Resolution 1036/1999 (IV. 21.) on the Strategy of the Consumer Protection Policy;
- Government Resolution 1045/1999 (IV. 30.) on Individual Guarantees Required for Borrowing for the Purposes of the Renovation of the Vehicle Fleets of MÁV Rt. and GYESEV Rt.;
- Government Resolution 1100/1999 (IX. 3.) on the Guidelines for Housing Policy as well as the Transformation of the Housing Subsidy and Financing System;
- NBH Decree 3/1999 (MK. 80.) and NBH Decree 4/1999 (MK. 106) on the Amendment of NBH Decree 6/1997 (MK. 61.) on Payment Transactions;
- NBH Decree 6/1999 (PK. 14.) on the Amendment of NBH Decree 3/1997 (PK. 14.) on Money Exchange Activities;
- NBH Decree 7/1999 (PK. 14.) on the Amendment of NBH Decree 15/1995 (PK. 18.) on Financial Services Activities Conducted in Foreign Currencies or with Foreigners in Forints, as well as Complementary Financial Services;

Amendment of the Central Bank Act

The amendment of the Central Bank Act is intended to prevent short-term exchange rate fluctuations from directly affecting the profits of the NBH and the central budget. The impact of these fluctuations is reduced by the retained earning of the NBH. Based on the amendment of the rules on the pre-payment of dividends by the NBH, payments to the central budget can already be determined at the planning phase.

Amendment of the Foreign Exchange Act

Act CXXV of 1999 on the 2000 Budget of the Republic of Hungary also amended Act XCV of 1995 on Foreign Exchange. In view of the fact that there are several types of official instruments for the identification of citizens, but the only means of positively identifying a person's resident status for the purposes of foreign exchange regulations is the identity card, the amendment prescribes the use of identity cards for natural entities for the verification of their resident status.

As there appears to be no circumstance that would justify the assumption that a relationship governed merely by the Civil Code between a resident and non-resident for the purposes of foreign exchange regulations turns the status of the resident into non-resident, this case has been omitted from the Act on Foreign Exchange.

Compliance with the regulations of the Foreign Exchange Act on negotiable instruments is in harmony with the legislator's intentions provided that the term "negotiable instrument" covers not only the forward contracts with financial claims, but also those with securities, money market instruments and negotiable instruments.

PART TWO

I. The 1999 balance sheet and profit and loss account of the National Bank of Hungary

1 Changes in relevant statutory control

It is essential for the interpretation of the annual report of the National Bank of Hungary to be familiar with a number of rules laid down in certain legal provisions, most notably, the Central Bank Act and the Government Decree on the characteristic features of the National Bank of Hungary's obligation to prepare annual reports and keep books. In the course of 1999, these regulations were amended to a considerable degree, in respect of settlement and payment between the Bank and the central budget. These changes were primarily aimed at making the budgetary effect of the central bank's accounting of profits gained from the forint's intra-band fluctuations more consistent with a practice consistent with the laws of economics.

The peculiarity of the Hungarian situation arises from the fact that the net foreign exchange debt of the Budget still considerably exceeds the net foreign currency receivables of the Bank. Prior to amending the Act, this resulted in a contradictory situation where the strengthening of the forint within the band which at the consolidated level reduced the government's net foreign exchange debt in forint terms caused an exchange rate loss for the Bank, which the Budget was supposed to finance. At the same time, the strengthening of the forint caused a stronger reduction in the foreign exchange debt of the Budget, yet under the government's accounting rules, the resulting exchange rate gain does not affect the current budget.

Pursuant to the amendment, the revaluation difference arising from the forint's movements within the exchange rate band is no longer included with the Bank's profits, but rather is recorded on the equalisation reserve, which is part of the other liabilities (IX) on the balance sheet. This new regulation also ensures that an unrealised exchange rate gain on the Bank's net foreign exchange position, caused by a potential temporary weakening of the forint, is not recorded as a profit for the given financial year and thus does not represent budgetary revenue.

Similarly, the same equalisation reserve of the balance sheet is to include the unrealised exchange rate gain or loss arising from the market valuation of securities denominated in foreign currency. In terms of the new regulation effective as of 1999, profits for the given financial year include only the actual, i.e. realised, amount of exchange rate gain or loss, which has become final either through the sale or maturity of securities.

The amendment has also provided for abolishing the rule that prescribes automatic additions to be made to shareholders' equity, deeming that such a rule lacks sound economic foundations. Yet, with a view to international presentation, it provides that the amount of shareholders' equity may not fall for long intervals under the value of the subscribed capital even with the inclusion of the equalisation reserve.¹ In terms of another important change aimed at smoothing the differences between the profits earned over different years and assisting the scheduling of the payment to the Budget, from 2000, the payment of dividends is based on averaging the profits earned over the previous years. The amount of the dividend to be paid for 1999 is provisionally set under the Act. The numerical changes caused by the amendments are referred to in the footnotes to the tables.

Even the statutory changes described at length in the accounting report have apparently failed to resolve all of the contradictions arising from the absence of harmony between the accounting rules of the central bank and the Budget. Therefore the Act also formulates the need for further amendments for the purpose of pinpointing an accounting or financial technical standard that would ensure that the exchange rate gains or losses on the Bank's net foreign exchange position and those on the central budget's net foreign exchange position affect general government at approximately the same time and in the same manner.

¹ If the sum of the shareholders' equity and the equalisation reserve is lower than the subscribed capital, the Budget is obliged to reimburse the difference for the Bank by a deadline of 15th January of the year subsequent to the Annual General Meeting approving the Bank's Annual Report.

2 Effect of economic developments on the balance sheet and profit and loss account of the Bank

The state of the balance sheet and the profit and loss account of the National Bank of Hungary are essentially determined by the chief monetary policy objectives and the selected instruments. Monetary policy serves to achieve macroeconomic targets (such as the sustainable reduction of inflation and maintaining the stability of the exchange rate path), thus central bank profits are not to be regarded as target variable of the central bank.

Over recent years, the effect of economic developments has been transmitted primarily by the following four factors:

- changes in the exchange rate of the forint;
- intervention, meaning the compulsory purchase or sale of foreign currencies at the edges of the exchange rate band, in order to maintain the selected exchange rate path for the forint;
- sterilisation, in order to partially neutralise the effect of intervention on the money supply; and
- changes in international market rates and forint interest rates.

These factors determine the major changes on the balance sheet and the profit and loss account. On the balance sheet, currency purchases due to intervention caused a rise in foreign currency assets, while the growth in the

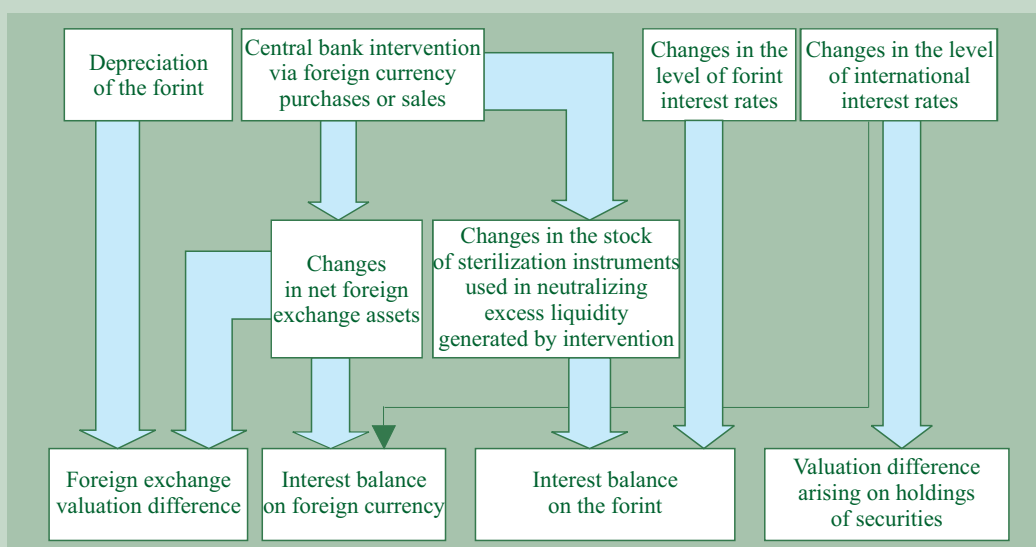
stock of sterilisation instruments caused an increase in forint liabilities. In addition to changing the balance sheet total and structure, the above factors have also made their effect on the four chief components of the Bank's profit and loss account: foreign currency exchange rate gains, foreign currency and forint interest margin, as well as the income from changes in the market value of foreign currency securities. *Chart I-1* reflects the mechanism through which economic developments influence the balance sheet and the profit and loss account.

The greatest impact on the *forint interest balance* (*Line 1, Table I-1*) is made by the stock of central bank sterilisation instruments (such as money market deposits by credit institutions held with the Bank and bonds issued by the Bank) as well as changes in the level of forint interest rates.

Since 1995 the net forint interest margin has been predominantly negative because of the foreign currency inflow that reflects the country's attraction as a business opportunity. The crawling peg devaluation regime and stronger disinflation in 1999 enabled a substantial reduction in forint rates of interest. Thus, net interest expenses on forint instruments declined by over HUF 60 billion in 1999, compared with the previous year.

Foreign currency interest and interest related margin (*Line 2, Table I-1*) reflects changes in net foreign currency assets and in the level of international interest rates. Its decline was essentially due to interest rate increases in major international markets, which exerted downward pressure on the market value of securities

Chart I-1 Effect of economic developments of the balance sheet and profit and loss account



held in the foreign currency reserves of the Bank. These reserves are held predominantly in the form of securities, because they pay higher yields over the longer term than money market instruments with shorter maturities, smaller market price volatility, but lower interest payments.

The *foreign exchange gain* (Line 3, Table I-1) was influenced by the depreciation of the forint, as well as the value of the Bank's net (in excess of foreign currency debt) foreign currency receivables, changing first of all as a result of the intervention in foreign exchange mar-

kets. The decline in this balance over the 1998 figure is attributed to the fact that the rise in the Bank's profits from increased foreign currency receivables was exceeded by the fall in profits owing to the slowdown in the depreciation of the forint. Disinflation and the reduction in the rate of devaluation are likely to put downward pressure on this income component.

3 Factors determining forint assets and liabilities, and the forint interest balance

The change in net interest expenses in domestic currency (Line 1, Table I-1) is due to three factors:

forint interest rates continued to decline in 1999, which had a greater impact on the Bank's expenses than on its interest revenues (the average rate of interest on forint assets fell from 13% to 11.9%, and the average rate on interest-bearing forint liabilities from 16.6% to 12.7%). In consequence, net interest expenses on forint instruments declined by about *HUF 23.5 billion* relative to 1998.²

The effect of this decline in interest rates was aggravated by the fact that even with a rise in the volume of sterilisation instruments (Line VI, Table I-2) in the second half of the year, their average annualised value fell by roughly HUF 297 billion. At the same time, their value at the end of the year was up by HUF 100 billion on the year before, in the wake of robust growth in November and December. Sterili-

Table I-1 Main components of the Profit and Loss Account of the National Bank of Hungary

		HUF billions		
	Selected items	1998	1999	Change
1	Net interest expense in domestic currency (I-IX*)	90.5	29.2	61.3
2	Net foreign currency interest income (II X) Of which:	43.0	9.9	33.1
	a) Interest balance including hedging transactions	41.5	32.9	8.6
	b) Valuation difference arising on holdings of securities**	3.5	19.2	22.7
3	Foreign exchange valuation difference*** (III XI)	136.4	73.7	62.7
4	Other net profit and loss constituents	68.8	19.1	49.7
5	Profit for the year(1+2+3+4)	20.1	35.3	15.2

* The Roman numerals in brackets refer to the lines in the Profit and Loss Account.

** Due to changes in accounting rules, unrealised gains or losses from the valuation difference on holdings of foreign currency-denominated securities are no longer recorded in the Bank's profit and loss account. On the other hand, the figure for 1998 (HUF 3.5 billion) also contains the unrealised valuation difference. According to the methodology used in 1998, the loss on securities due to valuation difference would have been HUF 50.5 billion in 1999.

*** The methodology of calculating the foreign exchange valuation difference has also been changed. According to the previous methodology, gains on foreign exchange valuation difference in 1999 would have been HUF 44.5 billion.

Table I-2 Main components of the Balance Sheet of the National Bank of Hungary

		HUF billions			
ASSETS		1998 average stock	Dec 31, 1998	1999 average stock	Dec 31, 1999
I	Domestic currency assets	1,116.2	1,006.3	992.4	909.9
	a) of which: Claims on central Budget	920.4	811.8	821.6	763.7
II	Foreign currency assets	4,437.2	4,644.9	4,730.2	5,192.4
	a) of which: Gold and foreign exchange reserves	1,977.8	2,048.8	2,280.7	2,740.8
	b) Claims on central government	2,011.3	2,118.2	1,858.8	1,724.5
III IV	Other assets	104.1	279.3	190.8	273.5
V	Total assets	5,657.5	5,930.5	5,913.4	6,375.8
LIABILITIES		1998	1998	1999	1999
VI	Domestic currency liabilities	2,134.1	1,808.0	1,902.3	2,316.3
	a) of which: Current account deposits of credit institutions	406.6	295.7	466.0	337.7
	b) Sterilisation instruments	756.9	666.3	460.0	770.6
	c) Notes and coin in circulation	667.6	736.0	784.2	950.3
VII	Foreign currency liabilities	3,435.5	3,835.4	3,797.4	3,863.3
	a) of which: Liabilities to non-residents	3,041.0	3,209.6	3,199.0	3,103.6
VIII-IX-X	Other liabilities *	33.6	227.4	149.7	129.8
XI	Equity	54.3	59.7	64.0	66.4
XII	Total liabilities	5,657.5	5,930.5	5,913.4	6,375.8

* Pursuant to changes in accounting rules, in 1999 the equalisation reserve is included in the other liabilities line, which reduced the stock of other liabilities of HUF 190.4 billion by HUF 60.6 billion at the end of 1999.

² A breakdown of individual component parts of the changes in the interest balance has been conducted using a standardisation process.

sation instruments caused the *average balance of liabilities* to decrease significantly, while the drop in forint assets primarily due to maturing assets was of a smaller order. This change in itself *pushed up profits by HUF 27.6 billion*.

The minimal structural change in the balance of forint assets only had a negligible effect on the results, whereas the change in *the structure of forint liabilities* (in terms of the drop in the share of high-interest bearing sterilisation instruments) *reduced net forint interest expenses by over HUF 11 billion*.

As a result of these three factors, the amount of net interest expenses stood at HUF 29.1 billion as a whole, down by *over HUF 60 billion* on the previous year.

Interest received from the central budget stood at HUF 97.3 billion, down by HUF 20 billion on 1998. This was partly due to lower interest rates on government securities and partly to the decline in the volume of instruments on account of expiring maturities.

Receivables from credit institutions continued to decline as a result of loans reaching maturity. As the interest rates on most types of refinancing loans are linked to the central bank prime rate, the multiple cuts in the latter also put downward pressure on income.

In 1999, the balance of Budget deposits (including those of the State Privatisation Agency s) decreased on average, relative to 1998. The drop in deposits and the average rates of interest (down from 18.5% to 15.7%) lowered interest expenses.

As a result of the cut in the rates of interest paid on compulsory deposits of credit institutions at NBH, there was a slight decrease in interest paid during the year.

The cost of sterilisation instruments halved in the course of 1999, from HUF 142 billion in 1998 to around HUF 70 billion. The declining expenses incurred by absorbing the excess liquidity were due to the nearly 40% decline in the average balance of sterilisation instruments, such as money market deposit facilities and Central Bank bonds, as well as the over 3.5-percentage-point drop in the average rate of interest.

4 Changes in foreign currency assets and liabilities and in foreign currency interest margin

Net foreign exchange assets – calculated as foreign exchange assets (Line II, Table I-2) less foreign exchange liabilities (Line VII, Table I-2) – fell from over HUF 1,300 billion (USD 6 billion) in the first months of 1998 to HUF 768.4 billion (USD 3.7 billion) at the end

Chart I-2 Movements of the forint's exchange rate within the intervention band. Size of intervention in 1999

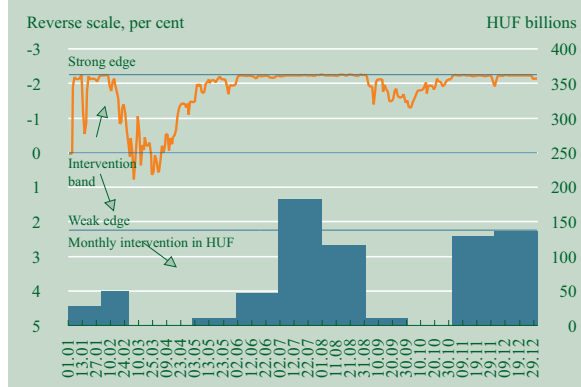
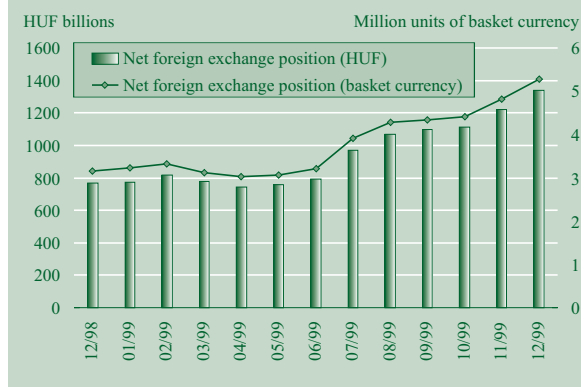


Chart I-3 Monthly developments in the net foreign exchange position, Dec. 1998 – Dec., 1999



of 1998, owing to the Russian financial crisis in autumn 1998. Foreign currency purchases made in the summer and at the end of 1999 as part of monetary intervention pushed up the level of net foreign exchange assets to HUF 1,340 billion (approximately USD 5.3 billion). Despite the rise, the average level of assets in 1999 fell short of that a year earlier (see Chart I-2; I-3).

The fall of nearly HUF 9 billion in the Bank's foreign currency interest margin, including the effect of hedging transactions (Line 2.a, Table I-1), was caused in large part by a decline in average accounting returns and, to a smaller extent, by the lower average of net receivables.

It takes several years for variations in the relevant US dollar and euro interest rates to feed through to the Bank's interest balance, because the majority of interest rates on loans, deposits and bonds are fixed thus do not change over the life of the instruments. Accordingly, in 1999 the effect on shorter-term foreign currency reserves of fluctuations in average interest rates rather reflected the previous year's decline seen in the markets, despite the general increase in interest rate levels in the year under review. Nevertheless, movements in interest

rates in 1999 had a major impact on the Bank's financial result because of losses incurred due to securities maturing that year and sales of securities. *Realised losses arising from price changes of foreign currency securities* due to rises in interest rates amounted to more than HUF 19 billion in 1999 (*Line 2.b, Table I-1*).

Whether expressed in the domestic currency or the basket currency, the value of foreign currency reserves (*Line II.a, Table I-2*) was volatile throughout the first third of 1999, followed by a period of continuous, though fairly uneven, increase. Foreign currency reserves rose by HUF 690 billion, or USD 1.5 billion, to HUF 2,741 billion, or USD 10.9 billion, in 1999 relative to their levels at end-1998.

The *average* stock of foreign currency reserves in 1999 was higher by more than HUF 300 billion compared with the data for 1998. But despite the significant increase in their average value interest income on reserves was only HUF 4.4 billion higher relative to 1998, amounting to HUF 117.7 billion, due to the fall in interest rates discussed above.

The path of changes in the prices of securities held within foreign currency reserves definitely was quite unfavourable in comparison with the previous year. This resulted from falls in the market for both US dollar and euro (previously German mark) interest rates in 1998, in contrast with 1999, when their movements were generally upwards. Part of the effect of the increase in interest rates, at HUF 19.2 billion, was realised on sales and maturities of securities, and so it was reflected in the Bank's financial results. The other part, treated as a potential loss, contributed to the deficit on the equalisation reserve due to changes in the market value of foreign currency securities. That deficit amounted to HUF 31.3 billion at year-end.

The balance of *foreign currency loans to the central government*, excluding the effect of related hedging transactions, fell gradually by 390 billion during 1999 to HUF 1,721 billion, due to repayments and early repayments.³ This factor itself reduced the Bank's result by HUF 4.4 billion. The average interest rate fell by 0.4% due to maturity of several bonds bearing higher than average interest rates, while the average return, taking into

account the results of hedging transactions, fell from 9.4% to 8.8%. Therefore the Bank's result decreased by nearly HUF 7.4 billion. Changes in average balance and in average interest rates caused interest revenue from the central government to be HUF 11.8 billion lower than in the previous year.

Loans and bonds issued abroad by NBH constitute the main part of other liabilities. The average interest rate on the Bank's outstanding foreign debt fell significantly in the year under review. That was attributable to decrease of interest premium due to the continuously improving credit rating of Hungary and the maturity of loans bearing high interest rates (i.e. result of low interest bearing funding performed in 1998). As a result, interest expenses on other foreign currency liabilities fell by HUF 5 billion and by a total HUF 22 billion including the related swap transactions.

5 Income related to exchange rate changes

In 1999, NBH purchased foreign currency equivalent to HUF 711.8 billion (USD 2,155 million or EUR 771 million) at the strong edge of the official intervention band. Interventions by the Bank in the first half and of the year, at HUF 137 billion, were more moderate in the period mid-February to mid-May, as movements in the forint exchange rate did not necessitate a more aggressive policy approach.

The resumption of foreign capital inflow from the second half of the year, however, led to increasing Bank presence, which involved a purchased amount of HUF 575 billion. Interventions by the Bank in July absorbed even higher amounts, exceeding the total purchased during the first half.

Actual depreciation of the forint due to official devaluation and market rate changes was 12.8% in 1998. Because of the changes to the accounting rules, the Bank's financial results for 1999 reflect only the financial impact of official devaluation. This official devaluation amounted to 6.5%, due to the gradual reduction in the monthly rate of devaluation. Owing mainly to this large drop, the Bank's *foreign exchange gain was HUF 73.7 billion* in 1999 (*Line 3, Table I-1*), which was only slightly more than one half of the HUF 136.4 billion exchange rate gain recognised in 1998. The almost 10% decrease of average net foreign currency receivables contributed to that decrease similarly.

³ The central government prepaid HUF 214.4 billion of debt maturing in 2000 or later. More than 75% of this affected debt items where prepayment preceded the maturity of debt by up to four months. Less than 1% of prepayments affected debt items maturing in 2001. Foreign liabilities cannot be prepaid before bonds mature, therefore the Bank incurred an interest rate loss of HUF 10.4 in 1999 due to prepayments by the central government of its existing debt. That loss was partly offset by excess return arising from the increase in foreign currency reserves. Adjusting by this item, prepayments impaired the Bank's result by HUF 5.6 billion in the year under review.

6 Other contributors to changes in the Bank's balance sheet and financial results

Other net expenses (Line 4, Table I-4) fell significantly, by nearly HUF 50 billion, relative to the markable figures for 1998. The high level of other expenses in 1998 mainly consisted of provisions made to cover losses incurred by CW Bank. In 1999, the net affect of CW AG, that was under voluntary liquidation at the time, was much lower, HUF 6.2 billion.⁴ Other extraordinary items did not affect the financial results for 1999. Operating costs and expenditures related to money circulation were the two factors basically influencing the level of results.

In accordance with the rules for dividend payment, the Bank transferred a total of HUF 30.6 billion to the

central government in 1999. Taking into account the transfer of HUF 10 billion by the central government aimed to maintain the Bank's equity at the statutory level, the Bank paid a net total of HUF 20.5 billion to the central government in 1999.

The deficit on the equalisation reserve, noted earlier, amounted to HUF 60.6 billion as at 31 December 1999, was the result of a HUF 31.3 billion unrealised loss on foreign currency securities and a HUF 29.3 billion revaluation loss due to changes in the market rate of forint. As the loss exceeds by HUF 4.2 billion the retained earnings, which is HUF 56.4 billion after determining the result for the year, the central government is obliged to reimburse the difference for retained earnings by a deadline of 15th January of the year subsequent to the Annual General Meeting approving the Bank's Annual Report, as set forth in Section 3 of Article 20 of the Central Bank Act.

⁴ Measures taken in relation to CW Bank are presented in Section IV of Part Two.

II. Review of the internal management operations of the National Bank of Hungary

In keeping with its role as a modern central bank, the National Bank of Hungary aims to establish the necessary infrastructure background and provide state-of-the-art conditions for operations, in order to discharge all major central banking functions as efficiently as possible, including the conduct of monetary policy, the management of foreign currency reserves, the operation of information and reporting systems as required by law and the Bank's responsibilities related to cash circulation. Highly qualified staff and the proper computer and technical background, indispensable for the performance of high-quality work, are the most important pillars for fulfilling these conditions. Other supporting factors include careful planning of development and operating costs and the enforcement of rules regulating the usage of the approved financial budgets in a rational, cost-efficient manner.

Achievement of the objectives noted above was served in 1999 by the continuation, and partial completion, of a number of high-priority *investment projects* started in earlier years. These included the following:

establishment of a unified, integrated IT infrastructure has continued, thus providing the essential conditions for a working environment of adequate quality within the Bank. Together with the

remaining one-off investments and continuous maintenance of the technical level, this infrastructure will ensure more accurate processing and a faster and safer flow of data, as well as the reliable protection thereof;

modernisation of the interbank clearing and settlement system (the development and successful implementation of VIBER [Real-time Gross Settlement System]), which, in addition to enabling faster and more reliable execution of payment orders, fulfils one of the basic conditions for the integration of the Hungarian banking system into the European system.

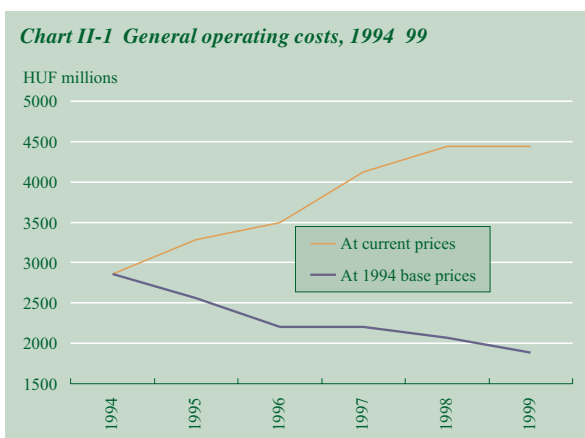
Table II-1 Investments projects

	HUF millions	
	1998	1999
1. Modernisation of information technology background	1,139	1,363
2. Modernisation of payment transactions (VIBER)	279	845
3. Modernisation of emission activity	132	241
4. Upkeep and technical modernisation of buildings	781	809
5. Change in the function of property owned by the National Bank and their integration	90	29
6. Restructuring, refurbishment and modernisation of regional offices	146	27
7. Replacement, renovation and increase of other physical assets	203	130
Total	2,770	3,444

Table II-2 Operating costs

	1997	1998	Index (1998/1997)	1999	Index (1999/1998)
	HUF millions	HUF millions	Per cent	HUF millions	Per cent
General operating expenses	4,124	4,439	107.6	4,439	100.0
Wages, salaries and related costs	3,857	4,458	115.6	5,085	114.0
Employer's contribution on wages	1,750	2,018	115.3	1,975	97.8
Fringe benefits	282	269	95.4	245	91.0
Depreciation	1,524	1,970	129.3	1,919	97.4
Other expenses	+ 5	8	x	74	X
Bank operating expenses with comparable content, total Σ (97 - 98)	11,542	13,146	113.9		
Bank operating expenses in real terms			99.4		
Employer's contribution*		208		171	82.2
Bank operating expenses with comparable content, total Σ (98 - 99)		13,354		13,760	103.0
Bank operating expenses in real terms					93.6

* As a result of changes in accounting regulation, from 1998 the item 'employer's contribution' is now recorded with bank operating expenses.



The establishment and further development of the instruments noted above set the tone of the Bank's investment policy in 1999. In addition to these aspects, another highly important task was preserving the state of the Bank's buildings of historical interest and renovating their technical systems. Actual expenditures related to the investment projects for the years 1998 and 1999 developed as follows (see Table II-1):

Total bank operating expenses in 1999 were 3% higher than in 1998, falling markedly, by 6.4%, in real

terms. Except for wage costs, every cost item in operations fell, mainly due to the rationalisation of the Bank's regional office network. Accordingly, operating expenses for 1999, as detailed below, are expected to reflect the costs of the organisation having been rationalised, therefore, further large-scale reductions and a downward trend in the real value of costs is not expected.

General operating expenses fell markedly in real terms in the period 1994-99 (see Table II-2; Chart II-1), primarily as the result of a well-planned reduction in the number of Bank employees, organisational units and own buildings and rented facilities. On the whole, the Bank's 1999 internal management operations were carried out within the limits of the approved budgets. The implementation of plans has been reviewed and the report thereon approved by both the standing committee in charge of overseeing the continuous control of the Bank's operations and by the Bank's Board of Supervisors. New orders and rules, issued during the course of the year, were aimed at increasing the efficiency of internal management operations, improving the transparency of using the financial budgets and negotiating even more favourable procurement conditions.

III. Human resources system

The modernisation of the organisational structure of the National Bank of Hungary has entailed a renewal of the form and content of the Bank's human resources system. A comprehensive, new human consulting system vis-à-vis both employees and management has been put in place, and the recruiting and selection system has been overhauled. The previous system of moral incentives has been replaced by a scheme that takes into account the Bank's specific features and is applicable over the longer term. A unified system of job evaluation and description, as well as a performance assessment system is being developed.

The background for human resource tasks is provided by a SAP human resource module, which requires further expansion in terms of its functions.

1 Staff and wage management

The number of employees declined further in 1999, primarily as a result of the reorganisation of regional directorates (emission activity ceased at four regional directorates as of January 1, 1999). The drop in the number of staff during the year (down from 1,423 on December 31, 1998 to 1,372 on December 31, 1999) mainly affected cashier and cash processor positions. The layoffs entailed further changes in the composition of the Bank's staff, enabling a substantial technical rise in the level of wages and salaries.

In addition to the reorganisation of the regional network, the review of the number of staff employed in central headquarters departments and the rationalisation of task division has also continued (affecting the Emission Department, Liquidity Department, Accounting and Financial Department, Foreign Exchange Authority and Control Department, International Capital Market Department).

The approved 1999 payroll budget of the National Bank of Hungary was HUF 5,015.8 million, enabling a 15.8% rise in employees' income level. In 1999, the wage measures of the National Bank again remained below the national earnings growth rate, especially that in the financial sector.

2 Education and training

When designing the content, type and costs of the training courses in 1999, great emphasis was placed on applying the principles which serve the achievement of the central bank's medium- and long-term strategy, in addition to the general rules (such as reasonable savings, cost-efficiency in the service of smooth operation, an emphasis on controlling).

The main areas of education (language courses, IT and data processing courses, and advanced professional training) have remained the same, but there is a sign of restructuring in terms of content.

With the progress of the four-year language training programme, there has been a decline in the number of participants, as an increasing number of employees have already satisfied the language requirements for their respective jobs. On the other hand, the implementation of more stringent conditions and tougher exam requirements have made students reach a more responsible decision.

Training connected with the transformation of the IT infrastructure, launched by the Bank in 1998, was basically completed by the middle of the year. Short retraining courses were held to introduce all computer users to the Windows NT system.

Nearly every area showed interest in acquiring the necessary skills to meet the professional requirements of the various positions and the new challenges. Over the year, the Bank organised a great number of its own courses to meet the various educational needs of staff members. At the same time, there was a rise in the number of staff entering postgraduate courses in the public education system.

In addition to maintaining technical training courses, the National Bank's educational policy is placing increasingly greater emphasis on the development of co-operation and internal communication, and the integration of young colleagues. The first phase of management training has been concluded.

Within the framework of foreign technical aid and with the co-ordination of BIS or on the basis of direct contacts, international consultation with other central banks also continued, focusing on the forthcoming EU accession and the related experience of EU member countries.

Furthermore, a training co-operation scheme was launched between the central banks of the EU candidates (and the other former socialist countries), based on an exchange of experience with a view towards progress.

3 Social and welfare system

Social and welfare expenses have seen a downward trend since 1995, as the reduction of institutional and support-type costs continued. In addition to concentrating social and welfare spending on those employees really in need (including old age pensioners, large families

and socially-disadvantaged persons), the establishment of a benefits system aimed at the improvement of the general morale of the staff and the retention of staff increasingly came into the focus of attention.

The reduction in costs is mostly due to the rationalisation of the use of holiday resorts as well as to the gradual cancellation of child-care centre support, affecting only a small portion of the staff. At the same time, the welfare system paid increased attention to the general morale of active employees and the retention of such employees at the Bank. An important achievement in this regard is that the preventive character of the health care services was reinforced via the introduction of further screening tests (urology, dermatology and rheumatology). Support provided for the Bank's sport club is offering an ever-widening group of employees access to the active pursuit of sport, necessary for a healthy lifestyle.

With the collaboration of the Bank's Bankjól ti Kft., four domestic holiday resorts offer holiday and recreation opportunities; the amount of the Bank's contribution to the costs is based on the income of the employee.

The Bank continued to assist the solution of the housing problems of its employees by extending employer's loans. Nevertheless, the objectives of the Bank – retaining valuable staff, protecting the independence of Bank employees from other financial institutions and secure, risk-free repayment – remained among the priorities when deciding on granting such loans.

Table III-1 Social and welfare expenditure

	Cost of institutions	Benefits, subsidies	Total costs	Change, per cent
	HUF millions			
1995	117.4	235.7	353.1	
1996	123.5	240.0	363.5	2.9
1997	58.8	222.9	281.7	22.5
1998	66.2	202.6	268.8	4.6
1999	63.5	198.8	262.3	2.4

IV. Review of measures taken in relation to CW Bank

In the National Bank of Hungary's report to the Hungarian Parliament on its 1998 operations, the Board of Directors presented a comprehensive review of the extent of losses incurred by the Bank's Vienna-based subsidiary, together with a detailed account of the most crucial events of the previous years and the causes of the losses, as well as the measures taken to resolve the crisis. This chapter provides a brief description of the most important developments and actions taken in this matter since the closure of the Bank's 1998 Annual Report.

Following the decision by the Ministry of Finance on April 21, 1999, the management of CW Bank concentrated its efforts more on ceding its bad assets to the Hungarian Development Bank (MFB) than on creating a work-out unit as laid out in earlier concepts, and took the necessary steps, legal and otherwise, to cede those claims. Government Resolution 2128/1999 (VI. 9.) created a new situation, stipulating the purchase of CW Bank by the MFB in full, at a book value established as at December 31, 1998. The NBH and CW Bank both made attempts to implement that decision too. Accordingly, the parties prepared the information supporting the transaction, and repeatedly initiated measures deemed absolutely necessary to conduct the transaction with the appointed buyer. In the meantime, CW Bank offered for purchase its assets earmarked for sale to the MFB and its debt management subsidiary until the start of the winding up process, but, if a purchase offer was ever made by the MFB at all, the price was below the selling price CW Bank actually achieved in each case.

Nevertheless, in drawing up the 1999 semi-annual balance sheet, CW Bank faced a dilemma – the underlying balance sheet prepared for the transaction showed a loss in excess of 50% of the bank's registered share capital. (This loss resulted primarily from the deterioration of the inherited asset portfolio caused by the war in Yugoslavia and by the inevitable costs of operations of the already inactive bank. The Minister of Finance found that it was too early during the summer to accept the very favourable offer for the purchase of CW Bank's head office building, further exacerbating the 1999 losses.) The

consequence of losing one-half of the bank's registered share capital, in the spirit of Austrian law, was that a statement had to be made to the banking supervisory authority as to whether the owner was willing raise the share capital or initiate voluntary dissolution. The central bank and the Minister of Finance, representing the owner, together with competent officials of the Prime Minister's Office, agreed to withdraw the subsidiary from the market, a decision confirmed by Government Resolution 2244/1999 (IX. 29.).

The commencement of the process of winding up CW Bank was announced on October 1st. In accordance with the Austrian law and customs, the procedure has been conducted by management appointed during the final period. This management and the official receiver appointed at the suggestion of the Minister of Finance have been discharging their duties successfully. In order to ensure the proper representation of the Government, and also taking into account the local circumstances, this receiver has a right of veto in all important issues. In order for the Government to be able to control the process of final settlement properly, the company Hozam Rt., which was also suggested by the Minister of Finance, has been charged with closely monitoring the entire process. It should be noted that Austrian law did not permit Hozam Rt. to be appointed receiver.

The NBH, the bank's owner, in addition to ensuring the smooth management of CW Bank placed under the procedure of winding up, arranged for the development of a transparent decision-making mechanism and for the generation of specific provisions deemed adequate by the Bank's auditor in the Annual Report of NBH as of 1999, and thus ensuring the solid financial background of the whole process. The results of the voluntary dissolution process in the period to date make it likely that the Bank's balance sheet for 2000 will not be burdened by liabilities related to CW Bank. In its 1999 balance sheet, the NBH formed HUF 7.4 billion in provisions to cover the expected losses of CW Bank. Taking account of the release of provisions in 1999 following the portfolio clean-up at CW Bank, the expected losses of CW Bank reduced the NBH's result by a total HUF 6.2 billion.

The managements of the NBH and CW Bank took the measures required to establish the professional and legal responsibility for the heavy losses accumulated by CW Bank. The auditor of the NBH, at the request of the Boards of Directors and Supervisors, issued a report at the end of 1998, which attempted to lay the groundwork upon which personal accountability could be established. In view of the findings of the report, and following the careful preparations by the Austrian legal office in charge of the case, CW Bank initiated a criminal lawsuit against 5 former members of management at the Austrian Public Prosecutor's Office on September 3, 1999.

A number of claims for damages under civil law were submitted in cases where proof of omissions on the part of CW Bank's management between 1991-96 causing grave material consequences could be established. CW Bank has been pursuing legal procedures, such as lawsuits, execution, bankruptcy procedures, liquidations etc., in some 50 cases against those debtors who failed to honour their debt.

According to the reports by the receivers and the professional expert charged with the monitoring of the process, the operative stage of the final settlement is expected to finish by the end of the year. The most impor-

tant elements of assets, including claims of high face value and most subsidiaries, have already been sold, and a favourable offer for the purchase of the head office building has also been received. (This has not been accepted yet, as, despite the Bank's request the Ministry of Finance has not declared its intentions as to whether or not it wishes to exercise its pre-emption right.) The balance sheet total of the bank fell from ATS 8.9 billion as at December 31, 1998 to ATS 2 billion a year later, with the amount of claims on customers not exceeding ATS 1 billion. Returns achieved during the portfolio clean-up process match the estimate made by Boston Consulting Group with a closing date of June 30, 1998. That estimate was approved as a benchmark by both the governing bodies of the NBH (including the Bank's Board of Supervisors, delegated by the Parliament) and the Ministry of Finance. The Board of Supervisors of CW Bank and the Board of Directors of the NBH have paid special attention to the process of winding up. Relying on the report on the provision need prepared by the auditor of the NBH and the appraisals of the newly appointed auditor of CW Bank as well as on the report by the consultants commissioned at the request of the Minister of Finance, they have found that the process has been managed in an adequate, efficient and responsible manner.

V. Independent auditor's report and resolutions by the shareholders meeting



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(Free translation)

We have audited the financial statements of the National Bank of Hungary for the year ended 31 December 1999, from which the accompanying summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated 27 April 2000 we expressed an unqualified opinion on the financial statements.

In our opinion, the accompanying Balance Sheet and Profit and Loss Statement are consistent, in all material respects with the financial statements on which we expressed an unqualified opinion except that the Notes are not included.

Without qualifying our auditor's report, we would draw attention to the fact that the legal regulatory framework affecting the operation of the Central Bank underwent significant changes during 1999. Act No LX of 1991 and the government decree specifying the special attributes of the annual report of the Central Bank have introduced an equalisation reserve and have changed the requirements related to equity and state budgetary settlements. The balance of the equalisation reserve as at 31 December 1999 showed a deficit of MEEUF 60,581, and as a consequence the combined balance of the own equity and the equalisation reserve was MEEUF 5,783, resulting in an MEEUF 4,217 reserve replenishment obligation for the state budget, which it should meet until 15 January of the year following the date of the General Meeting of the Central Bank. A summary of the amendments has been provided in Section A/3/a^{*} of the Notes and the quantified analyses of the equity and equalisation reserve have been presented in Sections B/15 and B/16^{*} of the Notes (pages 9 to 11 and 29 to 30).

For a better understanding of the Bank's financial position and the results of its operations for the period and the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements and our audit report thereon.

Budapest, 27 April 2000

Bontovics Károly
Registered auditor
Licence No.: 003019

L. Michael Birch, OBE
Partner
PricewaterhouseCoopers Kft.
Licence No.: 001464

^{*} The summary prepared based on the sections referred to above is included on pages 131 and 136 of this publication.

I. BALANCE SHEET OF THE NATIONAL BANK OF HUNGARY			
	HUF millions		
ASSETS	Dec. 31, 1998	Dec. 31, 1999.	Difference
I RECEIVABLES IN FORINT (A+B)	1,006,329	909,931	96,398
A FORINT RECEIVABLES (1+2+3+4)	1,009,538	914,684	94,854
1 RECEIVABLES FROM THE CENTRAL GOVERNMENT	811,775	763,692	48,083
a) Receivables within 1 year	376,876	401,264	24,388
b) Receivables over 1 year	434,899	362,428	72,471
2 RECEIVABLES FROM CREDIT INSTITUTIONS	167,078	120,279	46,799
a) Receivables within 1 year	22,185	2,466	19,719
b) Receivables over 1 year	144,893	117,813	27,080
3 RECEIVABLES FROM MONEY ISSUE AND CIRCULATION	30,000	30,000	0
a) Receivables from the Hungarian Post Administration	30,000	30,000	0
b) Items in transit	0	0	0
4 OTHER RECEIVABLES	685	713	28
a) Receivables within 1 year	3	3	0
b) Receivables over 1 year	682	710	28
B PROVISION FOR FORINT RECEIVABLES (1+2)	3,209	4,753	1,544
1 PROVISION FOR RECEIVABLES FROM CREDIT INSTITUTIONS	3,209	4,753	1,544
2 PROVISION FOR OTHER FORINT RECEIVABLES	0	0	0
II RECEIVABLES IN FOREIGN CURRENCY (A+B)	4,644,889	5,192,419	547,530
A FOREIGN CURRENCY RECEIVABLES (1+2+3+4)	4,648,377	5,195,900	547,523
1 GOLD AND FOREIGN CURRENCY RESERVES	2,048,804	2,740,759	691,955
2 RECEIVABLES FROM THE CENTRAL GOVERNMENT	2,118,180	1,724,517	393,663
a) Receivables within 1 year	0	3,540	3,540
b) Receivables over 1 year	2,118,180	1,720,977	397,203
3 RECEIVABLES FROM CREDIT INSTITUTIONS	11,427	6,327	5,100
a) Receivables within 1 year	342	439	97
b) Receivables over 1 year	11,085	5,888	5,197
4 OTHER FOREIGN CURRENCY RECEIVABLES	469,966	724,297	254,331
a) Receivables within 1 year	180,378	143,815	36,563
b) Receivables over 1 year	289,588	580,482	290,894
B PROVISION FOR FOREIGN CURRENCY RECEIVABLES (1+2)	3,488	3,481	7
1 PROVISION FOR RECEIVABLES FROM CREDIT INSTITUTIONS	0	37	37
2 PROVISION FOR OTHER FOREIGN CURRENCY RECEIVABLES	3,488	3,444	44
III BANKING ASSETS	31,491	33,445	1,954
A TOTAL ASSETS	32,508	33,489	981
1 Fixed assets, intangibles, investments	30,577	30,755	178
2 Value adjustment	0	0	0
3 Liquid assets	3	1	2
4 Other assets	1,928	2,733	805
B PROVISION FOR BANKING ASSETS	1,017	44	973
IV PREPAID EXPENSES / ACCRUED INCOME	247,746	240,027	7,719
O/w: Interest and interest related income on assets representing foreign currency reserves	62,900	47,493	15,407
V TOTAL ASSETS (I+II+III+IV)	5,930,455	6,375,822	445,367

	HUF millions		
LIABILITIES	Dec. 31, 1998	Dec. 31, 1999	Difference
VI LIABILITIES IN FORINT (1+2+3+4)	1,807,975	2,316,338	508,363
1 CENTRAL GOVERNMENT DEPOSITS	93,416	245,702	152,286
a) Deposits within 1 year	93,416	245,702	152,286
b) Deposits over 1 year	0	0	0
2 DEPOSITS OF CREDIT INSTITUTIONS	634,658	1,102,396	467,738
a) Deposits within 1 year	634,658	1,102,396	467,738
b) Deposits over 1 year	0	0	0
3 LIABILITIES FROM MONEY ISSUE AND CIRCULATION	736,280	951,744	215,464
a) Banknotes and coins in circulation	735,998	950,318	214,320
b) Items in transit	282	1,426	1,144
4 OTHER DEPOSITS AND LIABILITIES	343,621	16,496	327,125
a) Deposits within 1 year	342,487	15,853	326,634
b) Deposits over 1 year	1,134	643	491
VII LIABILITIES IN FOREIGN CURRENCY (1+2+3)	3,835,382	3,863,315	27,933
1 CENTRAL GOVERNMENT DEPOSITS	100,658	310,062	209,404
a) Deposits within 1 year	6,320	14,686	8,366
b) Deposits over 1 year	94,338	295,376	201,038
2 DEPOSITS OF CREDIT INSTITUTIONS	473,013	296,309	176,704
a) Deposits within 1 year	358,622	182,644	175,978
b) Deposits over 1 year	114,391	113,665	726
3 OTHER FOREIGN CURRENCY LIABILITIES	3,261,711	3,256,944	4,767
a) Liabilities within 1 year	46,982	148,281	101,299
b) Liabilities over 1 year	3,214,729	3,108,663	106,066
VIII PROVISIONS	68,476	7,642	60,834
a) For liabilities	68,476	7,642	60,834
b) Other	0	0	0
IX OTHER BANKING LIABILITIES	4,122	44,934	49,056
X ACCRUED EXPENSES / DEFERRED INCOME	154,768	167,097	12,329
XI EQUITY (1+2+3+4+5+6)	59,732	66,364	6,632
1 Share capital	10,000	10,000	0
2 Capital reserve	89	0	89
3 Retained earnings	45,500	56,216	10,716
4 Valuation reserve	0	0	0
5 General reserve	4,143	0	4,143
6 Profit per balance sheet	0	148	148
XII TOTAL LIABILITIES (VI+VII+VIII+IX+X+XI)	5,930,455	6,375,822	445,367

May 18, 2000, Budapest


Zsigmond J. rai
 Minister of Finance


 Dr. György Surján
 President of the NBH

II. PROFIT AND LOSS ACCOUNT OF THE NATIONAL BANK OF HUNGARY			
	HUF millions		
INCOME	1998	1999	Difference
I FORINT INTEREST AND INTEREST RELATED INCOME	141,629	114,828	26,801
1 INTEREST INCOME ON RECEIVABLES FROM THE CENTRAL GOVERNMENT	117,137	97,063	20,074
a) On receivables within 1 year	78,115	63,033	15,082
b) On receivables within 1 year	39,022	34,030	4,992
2 INTEREST INCOME ON RECEIVABLES FROM CREDIT INSTITUTIONS	23,552	17,160	6,392
a) On receivables within 1 year	1,929	1,489	440
b) On receivables within 1 year	21,623	15,671	5,952
3 INTEREST INCOME ON OTHER RECEIVABLES	172	254	82
a) On receivables within 1 year	6	2	4
b) On receivables within 1 year	166	252	86
4 INTEREST RELATED INCOME IN FORINT	768	351	417
II FOREIGN CURRENCY INTEREST AND INTEREST RELATED INCOME	491,721	514,547	22,826
1 INTEREST INCOME ON FOREIGN CURRENCY RESERVES	113,288	117,712	4,424
2 INTEREST INCOME ON RECEIVABLES FROM THE CENTRAL GOVERNMENT	149,143	137,307	11,836
a) On receivables within 1 year	0	0	0
b) On receivables within 1 year	149,143	137,307	11,836
3 INTEREST INCOME ON RECEIVABLES FROM CREDIT INSTITUTIONS	526	524	2
a) On receivables within 1 year	8	39	31
b) On receivables within 1 year	518	485	33
4 INTEREST INCOME ON OTHER RECEIVABLES	15,935	13,697	2,238
a) On receivables within 1 year	14,742	12,710	2,032
b) On receivables within 1 year	1,193	987	206
5 INTEREST RELATED INCOME IN FOREIGN CURRENCY	212,829	245,307	32,478
III INCOME RESULTING FROM EXCHANGE RATE CHANGES	182,134	101,941	80,193
1 Gain on foreign currency translation	133,375	81,515	51,860
2 Gain on foreign currency conversion	48,759	20,426	28,333
IV INCOME FROM MONEY CIRCULATION	934	1,309	375
V OTHER INCOME	25,943	5,852	20,091
1 Commission and fees received in forint	1,457	367	1,090
2 Commission and fees received in foreign currency	1,053	2,094	1,041
3 Ordinary and extraordinary income not included above	23,433	3,391	20,042
VI PROVISIONS RELEASED / USED	77,425	76,600	825
VII OPERATING INCOME	1,485	1,969	484
VIII TOTAL INCOME (I+II+III+IV+V+VI+VII)	921,271	817,046	104,225

			HUF millions
EXPENSES	1998	1999	Difference
IX FORINT INTEREST AND INTEREST RELATED EXPENSES	232,088	143,984	88,104
1 INTEREST EXPENSES ON CENTRAL GOVERNMENT DEPOSITS	43,791	32,229	11,562
a) On deposits within 1 year	43,791	32,229	11,562
b) On deposits over 1 year	0	0	0
2 INTEREST EXPENSES ON DEPOSITS OF CREDIT INSTITUTIONS	128,850	95,589	33,261
a) On deposits within 1 year	128,850	95,589	33,261
b) On deposits over 1 year	0	0	0
3 INTEREST EXPENSES ON OTHER DEPOSITS	58,369	16,077	42,292
a) On deposits within 1 year	58,310	16,075	42,235
b) On deposits over 1 year	59	2	57
4 INTEREST RELATED EXPENSES IN FORINT	1,078	89	989
X FOREIGN CURRENCY INTEREST AND INTEREST RELATED EXPENSES	448,762	504,641	55,879
1 INTEREST EXPENSES ON CENTRAL GOVERNMENT DEPOSITS	8,286	9,135	849
a) On deposits within 1 year	165	257	92
b) On deposits over 1 year	8,121	8,878	757
2 INTEREST EXPENSES ON DEPOSITS OF CREDIT INSTITUTIONS	14,954	18,985	4,031
a) On deposits within 1 year	7,290	12,287	4,997
b) On deposits over 1 year	7,664	6,698	966
3 INTEREST EXPENSES ON OTHER LIABILITIES	204,374	199,256	5,118
a) On deposits within 1 year	710	2,932	2,222
b) On deposits over 1 year	203,664	196,324	7,340
4 INTEREST RELATED EXPENSES IN FOREIGN CURRENCY	221,148	277,265	56,117
XI EXPENSES RESULTING FROM EXCHANGE RATE CHANGES	45,708	28,217	17,491
1. Loss on foreign currency translation	0	0	0
2. Loss on foreign currency conversion	45,708	28,217	17,491
XII EXPENSES RELATED TO MONEY CIRCULATION	5,969	3,896	2,073
XIII OTHER EXPENSES	32,682	70,159	37,477
1 Commissions and costs recorded in forint	12	3	9
2 Commissions and costs recorded in foreign currency	6,575	4,847	1,728
3 Ordinary and extraordinary expenses not included above	26,095	65,309	39,214
XIV PROVISIONS	122,110	16,330	105,780
XV OPERATING COSTS AND EXPENSES	13,840	14,467	627
XVI TOTAL EXPENSES (IX+X+XI+XII+XIII+XIV+XV)	901,159	781,694	119,465
XVII PROFIT FOR THE YEAR	20,112	35,352	15,240
XVIII DIVIDEND PAYMENT FROM RETAINED EARNINGS	0	0	0
XIX DIVIDEND PAID	20,112	35,204	15,092
XX PROFIT PER BALANCE SHEET (XVII+XVIII+XIX)	0	148	148
XXI GRAND TOTAL (XVI+XVII)	921,271	817,046	104,225

May 18, 2000, Budapest


Zsigmond J.rai
Minister of Finance


Dr. György Surányi
President of the NCH

RESOLUTIONS OF THE SHAREHOLDERS' MEETING

Resolution No. 1/2000 of the Shareholders' Meeting

The Shareholders' Meeting has accepted the report by the Bank's management on the 1999 business year with *two supplements* (which are included in the minutes of the Meeting). The Shareholders' Meeting has requested the Board of Supervisors of the NBH examine the reasons for generating HUF 7.4 billion provisions in relation to CWAG in 1999 and the circumstances of forming said provisions. Such examination should encompass all transactions which caused losses to CWAG in 1999, including, among others, the transaction with BCL Trading. Depending on the results of the examination, the Board of Supervisors shall make a proposal on prospective actions and personnel changes, if any.

Photocopies of documents pertaining to the correspondence on the subject of the transfer by the NBH of CWAG to the Hungarian Development Bank, in line with the relevant Government Decree, shall be attached to the minutes of the Shareholders' Meeting. Answers by the President of the NBH to criticism on the subject of CWAG read out by the Minister of Finance at the Shareholders' Meeting shall be attached, in edited form, to the Annual Report of the NBH to be submitted to Parliament.

Resolution No. 2/2000 of the Shareholders' Meeting

1. The ordinary Shareholders' Meeting of the National Bank of Hungary held in 2000 approved the balance sheet as at December 31, 1999 and the 1999 profit and loss account.

The National Bank of Hungary stated

a) the total assets of the balance sheet as at December 31, 1999:

HUF 6,375,822 million

that is, six trillion three hundred and seventy five billion eight hundred and twenty two million forints.

b) the profits for 1999:

HUF 35,352 million

that is, thirty five billion three hundred and fifty two million forints.

2. The Shareholders' Meeting noted that of the profits

HUF 35,204 million,

that is, thirty five billion two hundred and four million forints

is due as a dividend to the Hungarian State.

3. Based on Section 98 (1) of Act CXXV of 1999 on the 2000 Annual Budget of the Republic of Hungary, the Shareholders' Meeting approved settlement of the NBH's profits as stipulated below:

a) In 1999, the financial obligation of the National Bank of Hungary due to the Founder is

HUF 35,204 million

that is, thirty five billion two hundred and four million forints.

The advance payment of dividend by the NBH in 1999 is

HUF 35,204 million

that is, thirty five billion two hundred and four million forints.

Consequently, there are no mutual assets and liabilities between the Founder and the NBH.

b) As a balance of results for 1999 and the established amount of dividends,

HUF 148 million

that is, one hundred and forty eight million forints balance sheet profit

is transferred to retained earnings;

c) Based on Section 20 of Act LX of 1999 on the National Bank of Hungary, the Central Government shall reimburse

HUF 4,217 million

that is, four billion two hundred and seventeen million forints

to retained earnings by January 15, 2001.

Resolution No. 3/2000 of the Shareholders' Meeting

The Shareholders' Meeting has amended the Statutes of the National Bank of Hungary in accordance with the submitted proposal.

Resolution No. 4/2000 of the Shareholders' Meeting

Based on the Statutes, the Shareholders' Meeting has re-elected Managing Directors Messrs. Géza Farkas and László Török as members of the Board of the National Bank of Hungary for the period until the ordinary Shareholders' Meeting to be held in 2003.

Resolution No. 5/2000 of the Shareholders' Meeting

The Shareholders' Meeting has accepted the remuneration of the individual officers of the Bank in accordance with the relevant proposal, with the amendment proposed by the Minister of Finance, as the representative of the State, the sole owner of the NBH, stipulating that the Ministry of Finance does not authorise the payment of 50% of bonuses, over and above the basic pay for 2000, to the President of the NBH, the Chairman of the Board of Supervisors of CWAG and all other senior officers of the NBH with membership in the Board of Supervisors of CWAG.

SUPPLEMENT

Minutes

MINUTES
OF THE SHAREHOLDERS MEETING
OF THE NATIONAL BANK OF HUNGARY
ON MAY 18, 2000

MINUTES
of the Shareholders Meeting
of the National Bank of Hungary
on May 18, 2000

Venue: the grand council chamber of the National Bank of Hungary
 (Budapest, V. Szabads g t r 8., 3rd Floor, Room 301)

The following members were present:

Zsigmond J rai	Minister of Finance
György Sur nyi	President of the NBH
J nos Sz z	Member of the Central Bank Council
L szló Kelemen	Chairman of the Board of Supervisors
P ter Adamecz	Member of the Board of Supervisors and Deputy Secretary of State (Ministry of Finance)
L szló Akar	Member of the Board of Supervisors
Éva V rhegyi	Member of the Board of Supervisors
Antal Vattay	Member of the Board of Supervisors
Werner Riecke	Deputy President
György Szap ry	President s Adviser
Imos Kov cs	Managing Director, Member of the Board of Directors
d m Farkas	Managing Director, Member of the Board of Directors
Ferenc Karvalits	Managing Director, Member of the Board of Directors
Éva Kiss-Lad nyi	Managing Director, Member of the Board of Directors
Judit Nem nyi	Managing Director, Member of the Board of Directors
L szló Török	Managing Director, Member of the Board of Directors
Andr s G lsz csy	Managing Director
József Kajdi	Managing Director, head of the Secretariat
György S ndor	Managing Director
Attila V gh	Managing Director
Bea Szombati	President s Adviser
Miklós Blahó	Adviser, Deputy General Manager, Press Chief
Oliv r Glatz	General Manager
Bence Kalm r	General Manager (Internal Audit Department)
P ter Tab k	General Manager (Controlling Department)
L szló V radi	General Manager (Human Resource Management Department)
Guszt v Bienert	Director General of the auditor PriceWaterhouseCoopers Budapest Ltd.
K roly Bontovics	Director of PriceWaterhouseCoopers Budapest Ltd.
gnes Tardos	Chief Accountant of PriceWaterhouseCoopers Budapest Ltd.
Mrs. K roly Nagy	Adviser (Secretariat), keeper of the minutes

Agenda:

1. Report on the 1999 business year of the NBH to the Shareholders Meeting
2. Report by the Board of Supervisors and the auditors
3. Establishment of the 1999 financial statements of the NBH
4. Decision on the division of profits for 1999
5. Amendment of the NBH's Statutes
6. Personnel questions
7. Decision on the remuneration of certain Bank officers
8. Miscellaneous

xxx

1. In his opening address to the annual Shareholders Meeting in 2000, the President of the NBH, *György Sur nyi*, greeted the Minister of Finance, *Zsigmond J rai*, who was present on behalf the State, as a shareholder, as well as the external member and internal members of the Central Bank Council and the Chairman and members of the Board of Supervisors, the representatives of the NBH's auditors and the members of the Board of Directors, as well as all others present.

2. He then proceeded to request the services of Mrs. *K roly Nagy* in keeping the Minutes, and Messrs. *J rai* and *Riecke* to certify the same.

3. The National Bank of Hungary is required to report on its previous business year and, consequently, on the monetary policy implemented during that period. This account, which constitutes **Item 1 on the agenda** of the Meeting and is included in Part Two of the Annual Report, deals with economic and financial developments in 1999, as well as the monetary policy pursued by the NBH over this period.

Mr. *Sur nyi* also noted that the approval of the NBH's financial statements and the decision on the division of the profits generated in 1999 would take place at a later date.

He mentioned that the report on the 1999 business year had been discussed by the Board of Directors and also by the Central Bank Council, with the participation of the Government's representative, while the financial statements and the proposal on the distribution of profits had been discussed by the Board of Supervisors. He added by way of further information that the qualified status of this material would be lifted as of the day of the Meeting, in accordance with the announcements made in the course of the Board of Supervisor's meeting.

4. Mr. *Sur nyi* made three brief supplementary comments in relation to the financial accounts.

a) He felt that the statements in the report on the central bank's monetary policy needed no further comments. In his opinion, the report presented the targets and instruments of monetary policy in a clear-cut manner. There was only one factor the President wished to underline and include in the Minutes, namely, that the financial policy – comprising fiscal and monetary policy – pursued by the Government and the central bank was on the whole regarded as being successful, facilitating steady, long-term disinflation and rapid, sustainable economic growth. Sustainable economic growth went hand in hand with a sustainable reduction in inflation. This policy was based on monetary policy objectives and instruments that followed an intermediate target – an exchange rate target – in a highly

co-ordinated, organic manner, i.e. derived from its intrinsic nature, requiring an exchange rate which was allowed to fluctuate only within the boundaries of a relatively narrow band. This exchange rate policy was making it possible, or to put it more precisely, had paved the way for the favourable turn in inflation expectations and the existence of a predictable environment for economic agents, conducive to economic growth.

At the same time, this exchange rate policy, and more generally, the current state of the Hungarian economy has resulted in a rather significant contradiction since its very conception, in spite of, or perhaps indeed because, of the fact, that the country has adopted a responsible, credible economic policy. On the one hand, the National Bank must carefully monitor the stability of the exchange rate – in other words, it will ensure that the rate remains within the band, on the other hand, and simultaneously, it must pay attention to domestic economic and financial stability. These two objectives of interest rate policy and monetary policy are continually and perpetually at odds with each other. This is the contradiction that the central bank seeks to resolve by various means and techniques, at times in conjunction with fiscal policy at times separately, via specific central bank instruments. Nevertheless, this contradiction can be eased at best – in no way can it be resolved. In respect of an economy on a long-term path of closing the gap to more advanced economies and achieving fast economic growth, which has an equilibrium real exchange rate necessarily higher than in a country with slower economic growth, these higher equilibrium real rates create extremely alluring conditions for a steady, long-term inflow of volatile capital. As a result, within the prevailing system, sterilisation on the short side is logically the responsibility and duty of the central bank. This has both its costs and benefits.

This policy – as pointed out by Mr. *Sur nyi* at the beginning of his contribution – was on the whole perfectly successful and, in the NBH's view, promoted the healthy development of the Hungarian economy. From an accounting aspect, however, it generates on-going expenses and losses in the National Bank's balance sheet, in contrast to the Government's budget (not meaning the current balance, but the stock of public-sector debt), where it appeared as a source of profits. Profits were also generated in the current balance of general government after a certain lag in time, since with the downward movement in the interest rate curve/yield curve the government's interest payments were reduced, which led also to savings in the current budget after a couple of months' delay. At the heart of the matter was a kind of asymmetry, in terms of which the majority of costs appeared in the NBH's balance sheet, while profits appeared directly in the general government's balance sheet. The reason why Mr. *Sur nyi* emphasised the importance of pronouncing and recording this fact at the Meeting was, as he said, that especially this year when the on-balance-sheet proportion of the stock of sterilised instruments had significantly changed compared with last year's average, the tendency reflected by the central bank balance sheet for 1999 would be even more obviously and sharply apparent in the balance sheet for 2000 (but as it is only annual averages that are reflected by the tendency, a more thorough analysis is in order with respect to profits). He did not regard this as either a problem or a mistake or something to do away with, only wishing to point out the fact that in the current situation, the costs and benefits entailed by this policy were not recorded at the same institution.

b) The statutory amendment last year had enabled the central bank's profit and loss account to give a more accurate picture of economically justified processes, but this did not bring a solution to the present problem noted above. Therefore, Mr. *Sur nyi* wished to emphasise to the shareholders the need for future changes, also referred to in the 1999 amendments to the Central Bank Act, in statutory control

and the accounting system. However, such a change would definitely need support from the Government, more specifically, the Ministry of Finance.

c) Then he proceeded to comment on the situation of CWAG, NBH's subsidiary branch in Vienna, but only very briefly, since the issue had been discussed by NBH staff on numerous occasions and at great length. When evaluating the NBH's activity last year, Mr. *Suranyi* also noted that the winding up of the CW Bank would probably occur. At the time of the annual Shareholders Meeting in 1999 there had not been any decision on whether it would be the right solution to take the CW Bank off the market. The Government's position at the time involved the acquisition by a Hungarian state-owned bank of the bad portfolio of CW first, and later of the whole bank, to which end the NBH had always taken the appropriate preparatory measures. These measures were documented in the related correspondence, and it was absolutely clear that the implementation of the planned measures had not taken place on account of the Hungarian Development Bank's (MFB) refusal to take any of the required steps, despite several written requests by the NBH. It was only after this happened that the Government changed its position.

When compiling the balance sheet for the first half of 1999, CW was compelled to make a choice, since the balance sheet prepared for the acquisition showed a loss in excess of 50% of registered capital. Under Austrian law this required the owner to inform the Austrian banking supervisory authority of its intention of either raising additional capital or announcing liquidation. By the joint agreement of the central bank and the Minister of Finance, acting on behalf of the Government, and other interested government entities, a decision was taken in favour of liquidation, also confirmed by a government resolution.

Liquidation was announced as of October 1, 1999. The operative management of the winding-up procedures since then – in line with Austrian regulations and customs – was the task of the former management, set up during the last phase and working in an efficient way, and a receiver appointed on the proposal of the Minister of Finance. In order to ensure the Government's direct representation, the receiver, acting on the Government's behalf, had practically a right of veto over each key issue, with the limitations set by local regulations also taken into account.

In addition to providing management for the CW Bank while under liquidation, the National Bank, as the owner, also took charge of the establishment of a transparent decision framework as well as further provisioning for risk to the required extent, in other words, provided the financial background for the process. The progress of the liquidation apparent so far – regarding which the NBH Board of Supervisors receives reports by the bank management on a regular basis – rendered it highly likely that the balance sheet of the central bank for 2000 would not carry the burdens of CWAG-related obligations. The items in the central bank's balance sheet affected by the CWAG issue were given detailed coverage in the written report. In terms of the reports filed by the receivers and the auditors commissioned by the Government and the Minister of Finance to monitor the procedures, the active phase of the liquidation would be completed by the year-end.

Then, Mr. *Suranyi* wished to add another remark. He explained that he was surprised to read the Minister of Finance's statement on the issue of the daily newspaper (of May 18th). He found it unusual, especially within the banking community, that if you had some kind of view on something you would not share it with the management of the institution concerned before publishing a statement. What

happened was quite the opposite. As recently as two days before the Meeting Mr. *J rai* had told him that he was not aware of anything being wrong (including the question of CWAG). So from a professional point of view, if Mr. *J rai*'s statement was accurately reported by the paper (of which he was not at all certain), then he felt really surprised. The Minister of Finance's statement that CW Bank had continued to run up losses was no news at all, since the President of the National Bank had never heard of a bank in the history of banking which had been wound up because of being exceptionally profitable and the owners wanting to liquidate those profits somehow, not needing the receipts. He believed that it was completely natural that a bank without active banking operations could book nothing else but loss. This was the case by definition, so he was surprised that anyone would find anything peculiar there, although he requested the deletion of his remark from the Minutes if the statement to the press was not identical with the above reflections. Otherwise, he requested that his remark remain in the Minutes.

5. Then Mr. *Sur nyi* asked the participants of the Meeting to ask their questions and put forward their views in connection with the report on the 1999 business year of the National Bank of Hungary.

At this point, Mr. *J rai* wished to voice his views, or, more precisely, to add some comments, and complement the aforementioned remarks. First, he pointed out that co-operation between the National Bank of Hungary and the Government had been good on the whole in 1999, although the beginning of the year saw a bit too much controversy surrounding the budget. He felt these differences of views had not gone beyond what was normal in the professional community. All in all, the Ministry of Finance staff regarded their relationship with the Bank as in good working order.

Next, he proceeded to say that the National Bank's monetary policy was sufficiently consistent with the Government's economic policy. He shared Mr. *Sur nyi*'s view that it had fostered disinflation and promoted the establishment of conditions for balanced economic growth. He noted that the Ministry of Finance was pleased that occasional differences of views or debates, if any, had been confined to the realm of ordinary professional debate.

Third, he said that the exchange rate policy referred to by the President had passed the test of time and both the Bank and the Ministry had reinforced each other's positions on several occasions, mutually supporting the continuation of this exchange rate policy. The Ministry was also aware that total sterilisation costs should be reduced, and that it was their impact on the entire economy that should be assessed, not solely that on the balance sheet of the National Bank.

Fourth, he pointed out that the National Bank, as central bank, had been an efficient regulator of the system of credit institutions, which had also contributed in the Ministry's view to the sound operation of the Hungarian banking system and capital market.

Fifth, he noted that the system of foreign exchange debt management had changed during 1999, which had caused no problems in the management of foreign debt; the Government was able to successfully co-operate with the Bank. The contract on the Bank's role as the Government's agent in conducting foreign borrowing transactions had been concluded and was working soundly.

Sixth, he said that the only issue casting a shadow over co-operation between the Government and the central bank in 1999 was related to CW Bank. The Ministry felt that the Bank had ignored the Govern-

ment's intentions and resolutions on this issue to such an extent that was destructive to proper co-operation and sound relationship. Although the Bank had the right to do so, being the owner of CWAG, it also had to take responsibility for the problems in connection with CWAG. Therefore, he requested the inclusion of the following passage in the Minutes and in the press release to be included under Item 8 (miscellaneous) on the agenda. What he read out was as follows: The Ministry of Finance believes that the unprofessional and irresponsible management of CWAG Bank, owned by the National Bank, has continued over the past few years, also assisted by a few senior members of the Bank. As a result, the losses generated earlier amounting to HUF 70 billion have been aggravated by an additional amount of HUF 7.4 billion.

The Government has clearly voiced its intention on several occasions that the National Bank of Hungary should only be engaged in functions associated with its role as a central bank. In spite of this, the Bank has, to the present date, failed to part with its scandalously managed subsidiary branch located in Vienna, which is currently being wound up. In defiance of the Government's intentions, by extending his contract the Bank has placed the effective management of the liquidation procedures in the hands of CWAG's former director general, under whose management a portion of the losses were incurred.

The Ministry requests the Board of Supervisors of the NBH to investigate the causes of the losses generated by the CWAG Bank over 1999 and to make a proposal on what measures and what personnel changes are required. The investigation should also cover the fake steel transport deal concluded between BCL Trading and Nador 95 in 1998 - also reported by the press - since CWAG accepted a bill of exchange associated with said transaction, despite the fact that BCL and other businesses in which it had interests had previously been indebted to the bank and had failed to pay on time.

Then he added that the aforesaid statement was by way of a complementary comment, broadly constituting the Ministry's judgement on the management of CWAG. This was preceded by the previous analysis of the Report and the related documents the Ministry had received from the NBH.

Before responding, Mr. *Suranyi* requested to know what kind of forum was required to decide on the text of the press communiqué issued at the Meeting.

Mr. *Kajdi* responded saying that the communiqué was not really included in the formal agenda of the Meeting, but by convention the Meeting always dealt with its text in the framework of the Miscellaneous item, usually approving the final version.

Mr. *Suranyi* then proceeded to share a few reflections with those present. First, he pointed out that the representatives of the Ministry of Finance or the Minister of Finance himself regularly attended sessions of the Board of Supervisors and the Board of Directors. If the Ministry and the Minister felt that the unprofessional and irresponsible conduct of the CWAG Bank had received support from a few NBH senior staff members, they should have let the NBH know. Not only had this not taken place, but there had never been any related objection raised during the meetings of either the Board of Supervisors or the Board of Directors. With regard to the risk provisions amounting to HUF 7.4 billion he said that in the course of 1999 the NBH had engaged in supplementary provisioning, and it would only be known at a later date what part of this would turn out to be actual loss. Referring to the time when Mr. *Jrai* was CEO of MHB and requested the Hungarian government for additional provisions or guar-

antees amounting to USD 100 million for Risk Kft., he could not recall anybody proposing that this was due to the irresponsible management by the CEO of the MHB (Mr. J rai) or to the support he had given. It was because every banker and financial specialist knew that the size of the ultimate loss incurred as a result of a long process was not possible to predict accurately. Everybody knew that only when the time span of several years had passed could the actual losses be established, let alone the fact that the market value of existing assets was undergoing constant change.

The statement at the core of the controversy would only be appropriate if it was possible to find specific evidence for the proposition that the activity of CWAG over the past one and a half years, with regard to its new borrowing and lending transactions, resulted in the need for risk provisioning amounting to HUF 7.4 billion, which would have been extended by the CW Bank management in office following the summer of 1998. It would only then be plausible to question the responsibility of CW Bank for the loss or potential loss incurred by the management in office after the summer of 1998.

Responding to the accusation in connection with the NBH failure to obey the Government's announced wish to have the NBH sell its Vienna subsidiary, Mr. *Sur nyi* said that he had compiled a list of related letters which, incidentally, he requested to be attached to the Minutes. He said that should the Minister of Finance insist on making the Ministry's position public, he would in turn insist on the publication of the correspondence with Mr. J rai, other members of the Government and MFB officials. The letters referred to clearly proved that the NBH had done its utmost to transfer CW Bank as it was into the possession of a financial institution owned by the Hungarian State in 1999. He quoted a paragraph from a letter he addressed to the CEO of the MFB on August 26, 1999: Over the past few months the NBH has made the necessary moves for the implementation of the Government Resolution, and is prepared to transfer, or more precisely, sell CWAG. The sales contract has been drafted and the information on the basis of which the specific terms of the transaction can be set out is available from CWAG Bank. As pointed out in our previous letter and also in the course of our discussions with MFB representatives, as a further condition of the transaction the MFB, the designated buyer of CWAG under the Government Resolution, should announce its acquisition intention to Austria's banking supervisory authority. Mr. *Sur nyi* underlined that the MFB had failed to take any of the above steps. There were no indications whatsoever of the MFB proceeding to acquire CWAG, which prompted the amendment of the Government Resolution in late August, as he recalled.

The accusation that it was the former CEO responsible for part of the losses that the central bank put in charge of the liquidation process, in defiance of the Government's wishes was an outright lie. *L szl* *L ng* was appointed as CEO of CWAG as of May 1998, and Mr. *Sur nyi* knew of no losses incurred by CWAG during his service as a result of active banking operations associated with the management. Furthermore, the Ministry's reference to BCL Trading in the statement was an insinuation and untrue, since the Ministry had omitted from the statement the fact that, according to a court order by an independent court of the Republic of Hungary acting in the first instance, the sum involved in the lawsuit had been adjudged to CWAG, as well as the other two banks involved in the case. Moreover, Mr. *Sur nyi* had personally written to the Minister of Finance in the spring of 1999 he could not recall the exact date that when entering the deal, CW Bank could not be aware of the identity of the firm involved (whether it was BCL Holding or company x, y or z). It was not a banker's duty and indeed the Minister, as a banker himself should know only too well to check the identities of the parties to a deal. What a banker was obliged to do was to check the quality of the guarantee given by the guarantor of the deal. Here he reiterated that at that time Henrik Auth had been at the head of Postabank for two

months. During his term in office, two authorised bank officials holding their posts under his approval provided an irrevocable absolute payment guarantee on the deal. Therefore, the risk the CW had taken was associated not with BCL, but with Postabank, hence what the statement said on this account was simply untrue. As far as the BCL deal was concerned it had only been disclosed to the CW Bank when it came to the actual transfer of money one month after the bank's invitation to the deal and its granting a letter of intent. Therefore, the NBH President strongly questioned the validity of the statement. Incidentally, the NBH had informed the NBH Board of Supervisors of the events at that time.

Due to the aforementioned facts, Mr. *Suranyi* felt that the publication of facts in the written press which easily failed the test of reality, were inappropriate or were based on inadequate information or outright malice should be avoided. He added that he, personally, would not authorise such a joint (Ministry of Finance – NBH) statement. The Ministry could proceed to act on its own, but he would refuse to sign such a press release on the Shareholders' Meeting of the National Bank of Hungary, as it was absolutely contrary to his standpoint.

In his brief response, Mr. *Jrai* said that as far as he knew the publication of the communiqué did not depend on the approval of the NBH, as it fell under the authority of the owner. However, as an alternative solution he said that the NBH could publish one statement and the Ministry another one. He then reiterated his opinion that the Ministry's could issue a statement without the approval of the National Bank.

He added that the Ministry of Finance members were not on the Board of Supervisors of CWAG (here Mr. *Suranyi* interjected that he had meant the NBH Board of Supervisors); and that Risk Kft. had no connection with CWAG and that the NBH had not sold CWAG. Otherwise, he agreed to the publication of the letters.

Mr. *Jrai* pointed out that an agreement was reached in October of 1998, according to which the NBH would sell CWAG by February of 1999. Later, CWAG's bad portfolio was separated out, following which the Government issued a resolution - in any case, the NBH was just as familiar with the events as he himself was. He also noted that the NBH estimated the losses for the first half of 1999 at a much lower sum than was finally recorded as a loss at the end of the year. Responding to a comment by Mr. *Suranyi*, Mr. *Jrai* corrected his use of the word 'losses' to 'risk provisions', adding that risk provisions are generally formed because losses are expected.

Mr. *Suranyi* remarked, 'Or not,' referring again to the case of Risk Kft. At that point, Mr. *Jrai*, as the CEO of MHB, had requested (and received) funds for USD 100 million of additional risk provisions, of which USD 30 million was eventually repaid.

Mr. *Jrai* agreed that, until there was a final decision, he would refrain from qualifying this question, and also accepted the correction of the expression 'losses' to 'risk provisions' although he felt this was essentially irrelevant. Returning to the question of the management of the process of liquidation of CWAG, he stated that the Ministry of Finance did not agree to *László Leng* having been appointed to oversee the process - Mr. *Leng* was appointed in direct contradiction to the wishes of the Government. It was not the intention of the Ministry of Finance that one of the four receivers be delegated by the Government, but rather that the Government appoint the receiver. Nevertheless, he stressed once again that the NBH had the right to take these steps.

And did CW Bank incur losses while Mr. *Ling* was the CEO? That will be checked and will become clear when the liquidation process is completed. He also noted that, in his opinion, losses incurred in the liquidation process should also be considered losses. Finally, he repeated this request, which had already been voiced in the statement, that the Board of Supervisors of the NBH investigate the deal with BCL Trading, more specifically this particular deal, and other deals related to BCL Trading, which caused losses to be incurred in 1999 at CWAG. In any case, the scope of the investigation should be broadened - an agreement will be reached in the future as to what the investigation should cover.

At this point, Mr. *Suranyi* pointed out that he had not received one single written or verbal request that Mr. *Ling* be removed from his position - unfortunately, he was not able to read people's minds. Moreover, this was an issue for which the NBH was responsible, as indeed Mr. *Jrai* himself had already pointed out. Furthermore, he stated again at the Meeting that the Government Resolution, which was not binding for the NBH, was implemented by the National Bank: the Bank did everything possible to prepare the transfer of CWAG to the MFB. To the best of his knowledge, it was the Ministry of Finance and the Government which failed to provide the Hungarian Development Bank with guarantees which would have been suitable for the MFB taking over CWAG - lock, stock and barrel. Hence, to say that the bank couldn't be transferred because of the NBH was simply not true. He also mentioned that it would have been the most comfortable solution for the NBH, if some State organisation had indeed been able to take over CWAG.

In respect of the issue of appointing the receiver he stressed the following points: he himself received a letter from Mr. *Jrai*, the Minister of Finance, written on behalf of the Government, in which Mr. *Jrai* stated that the Government wished to see Mr. *Ferenc Nercz* or the company *Hozam Rt.* appointed as receiver, in such a manner that the NBH would remain the owner of CWAG in the meantime. This solution has the following problems: a) First, he had never heard of Mr. *Nercz*, nor of *Hozam Rt.*; b) Pursuant to Austrian law a legal entity may not be appointed as a receiver - thus, of the two candidates, one was prevented by law from participating; c) The Austrian authorities only accept someone as a receiver, in particular as the director of the entire process, if he is able to show a documented, professional background, a proven track record and experience, and if the Austrian authorities are familiar with the person in question. These conditions were not fulfilled with respect to Mr. *Nercz*; d) Pursuant to Austrian law, one of the receivers must be an Austrian citizen. This requirement was fulfilled by the woman who is in fact now working as a receiver at the bank (whose work has been proceeding very well) and who was familiar with the internal situation at the bank. But this woman would not have been willing to accept the position without the CEO which the NBH delegated; e) Amongst other things, CWAG went bankrupt precisely because there was an unacceptable system of record-keeping and an unfounded system of collateral for loans, and because there were undocumented contracts and conditions, which can only be handled and the concomitant losses minimised, if the people who are involved in the process have some knowledge of the background. If employees and managers had been appointed who had no previous knowledge of the situation, an enormous loss of information would have taken place, which would have led to more losses, on the order of several tens of billions. In Mr. *Suranyi*'s view, no one could have or would have taken responsibility for those losses; f) As CWAG has remained on the NBH's balance sheet, he himself finds it completely impossible to imagine that the liquidation process would be managed by parties who are completely unknown to the management of the NBH - because at the end of the day, it is the NBH management which will have to

bear responsibility for process itself (after all, the NBH management is not bearing the responsibility simply as a gesture of good will).

Mr. *Sur nyi* was thus of the opinion that the National Bank implemented the Government Resolution and its intention to the fullest: a delegate of the Government is participating in the liquidation process as a full-fledged member with a right of veto. Hence, there is no reason whatsoever to assume that something has failed to happen in this area. He also pointed out that, at the meeting of the Board of Supervisors held before his appointment, Mr. *Nercz* himself expressly stated that he would be unable to carry out the tasks alone, as he was not familiar with the situation, and had had neither the time nor the opportunity to carefully analyse the individual items in the portfolio, in order to become acquainted with such. He had also found it proper and suitable that he work together with experts who have experience in this process - and had noted that, in this respect, the co-operation was satisfactory and was progressing smoothly. In addition, he found it rather difficult to believe that someone would be appointed and take charge of the process without even having a work permit and residency permit for the country in question. On the basis of the points he had just listed, it was clear that the press release and the position of the Ministry of Finance, as presented by the Minister, had no factual basis. The investigation of BCL Trading could be conducted, but he called attention to the fact that there are Hungarian and Austrian laws, and that these laws must be complied with, and that this applies to the Board of Supervisors of the National Bank as well. Naturally, it will be up to the Board of Supervisors to resolve these issues on its own.

6. Mr. *Sur nyi* asked the Meeting if it approved the report of the NBH on the 1999 business year.

Mr. *J rai* declared that, on behalf of the State, he approved the report of the NBH on the 1999 business year, *with the provision that the supplement that he read earlier be included.*

At that point Mr. *Sur nyi* asked that his answers to what the Minister of Finance read earlier be included as a supplement to the report of the NBH on the 1999 business year. Of course, these answers will have to be edited somewhat, as his answers were improvised and not drafted in advance - nevertheless, in terms of their content, it is absolutely necessary that they appear as a response to the position of the Ministry of Finance. Following all of this, he added that, of course, these comments would also be included in the Annual Report which would soon be presented to the Parliament.

7. Mr. *Sur nyi* noted that the Meeting had approved the report of the NBH on the 1999 business year with two supplements. He further requested that photocopies of the approximately 20 letters which the management of the NBH had sent to the directors of the Ministry of Finance in respect of the transfer of CWAG (to a State financial organisation, pursuant to the relevant Government Resolution) be attached, as well as the official answer of the Ministry of Finance to said letters. Hence, the NBH intends to disclose this correspondence to the public.

Resolution No. 1/2000 of the Shareholders Meeting

The Shareholders Meeting has accepted the report by the National Bank on the 1999 business year with *two supplements* (which are included in the minutes of the Meeting). The Shareholders Meeting has requested the Board of Supervisors of the NBH examine the reasons for

generating HUF 7.4 billion provisions in relation to CWAG in 1999 and the circumstances of forming said provisions. Such examination should encompass all transactions which caused losses to CWAG in 1999, including, among others, the transaction with BCL Trading. Depending on the results of the examination, the Board of Supervisors shall make a proposal on prospective actions and personnel changes, if any.

Photocopies of documents pertaining to the correspondence on the subject of the transfer by the NBH of CWAG to the Hungarian Development Bank, in line with the relevant Government Resolution, shall be attached to the minutes of the Shareholders Meeting. Answers by the President of the NBH to criticism on the subject of CWAG read out by the Minister of Finance at the Shareholders Meeting shall be attached, in edited form, to the Annual Report of the NBH to be submitted to Parliament.

8. Continuing the work of the Meeting, Mr. *Sur nyi* proposed to turn to Items 2, 3, and 4 of the Agenda, which involve the discussion of the NBH's 1999 balance sheet, result and profit and loss account. The section on the Bank's balance sheet, result, and operational and organisational matters is found in *Volume I*. Mr. *Sur nyi* noted that, as he had already pointed out, the Bank's Board of Supervisors had discussed the balance sheet and the profit and loss account on three occasions.

The Bank's consolidated balance sheet and profit and loss account can be found at the beginning of Volume I on pages 4-7, in a *separate, short proposal* related to Item 4 of the Agenda of the Shareholders Meeting.

The auditor has presented his report on the inspection of the balance sheet and profit and loss account in writing, and the Board of Supervisors has also prepared its comments on the Report, which were sent in advance to all the parties invited to the Meeting (these comments comprise Item 2 of the Agenda).

9. Mr. *Sur nyi* inquired if the representatives of the auditor wished to make any additional comments on their report.

Mr. *K roly Bontovics* confirmed that, as the President had already indicated to the Meeting, the report was submitted in writing, and that they did not wish to add any comments to such.

Following this, Mr. *Sur nyi* asked the Chairman of the Board of Supervisors and its members, if they wished to add any additional remarks to their comments, with due consideration of the fact that the Board of Supervisors had held a meeting immediately prior to the Meeting.

In connection with the proposal concerning the NBH's financial statements, Mr. *L szló Kelemen* noted the following: at its meeting held on April 27, 2000, the Board of Supervisors had discussed the balance sheet and profit and loss account of the NBH for the 1999 business year. Two resolutions had been adopted by the Board of Supervisors, as follows: Resolution 21/2000 states that the Board of Supervisors has discussed the audited annual report on the 1999 business year, as prepared for the 2000 Shareholders Meeting of the NBH. In the course of said discussion the Board of Supervisors had noted that the text in the Annual Report dealing with CWAG, which is currently being wound up, required some additional information. When the Board of Supervisors had received this information, it

would, if necessary, restate its opinion. The second resolution, Resolution 22/2000 states that the Board of Supervisors of the NBH recommends that the 2000 Shareholders Meeting of the NBH approve the 1999 balance sheet and profit and loss account of the National Bank of Hungary, as proposed, and establish the total assets of the balance sheet at 6,375.822 billion forints, the 1999 results at 35.352 billion forints and the balance sheet profit at 148 million forints.

The report to the Meeting was supplemented in accordance with the resolution of the Board of Supervisors, which was discussed by the Board of Directors at its meeting on May 12, 2000. The Board of Supervisors, at its meeting held immediately prior to the Shareholders Meeting, had discussed the issue again and adopted Resolution 28/2000 which states the following: the Board of Supervisors has discussed the audited report on the 1999 business year, with its supplementary information. On the basis of the recommendation of the Board of Supervisors, the Board has approved the report as supplemented and, by unanimous resolution, upholds its written resolution 22/2000 to the Shareholders Meeting on the 1999 balance sheet and profit and loss account of the National Bank of Hungary.

10. Mr. *Sur nyi* asked the participants of the Meeting if they had any comments or remarks of a general nature to add in relation to the proposal, the auditor's report and the Board of Supervisors' report on the Bank's balance sheet and result (Item 3 of the Agenda).

11. As no comments, additional information or remarks were voiced, Mr. *Sur nyi* asked the Minister of Finance, as the representative of the State, whether he approved the 1999 balance sheet and profit and loss account of the NBH, as well as the distribution of results (Item 4 of the Agenda), as set forth in the proposal of the resolution.

In response to Mr. *Sur nyi's* question, Mr. *J rai*, Minister of Finance and representative of the State, answered **Yes**, thus approving the National Bank of Hungary's 1999 balance sheet and profit and loss account, as well as the distribution of results.

12. Mr. *Sur nyi* noted that the Meeting had approved the 1999 balance sheet and profit and loss account of the NBH, as well as the distribution of results, as set forth in the proposal of the resolution, and consequently announced the following resolution:

Resolution No. 2/2000 of the Shareholders Meeting

1. The ordinary Shareholders Meeting of the National Bank of Hungary held in 2000 approved the balance sheet as at December 31, 1999 and the 1999 profit and loss account.

The National Bank of Hungary stated

a) the total assets of the balance sheet as at December 31, 1999:

HUF 6,375,822 million

that is, six trillion three hundred and seventy five billion eight hundred and twenty two million forints.

b) the profits for 1999:

HUF 35,352 million

that is, thirty five billion three hundred and fifty two million forints.

2. The Shareholders Meeting noted that of the profits

**HUF 35,204 million,
that is, thirty five billion two hundred and four million forints
is due as a dividend to the Hungarian State.**

3. Based on Section 98 (1) of Act CXXV of 1999 on the 2000 Annual Budget of the Republic of Hungary, the Shareholders Meeting approved settlement of the NBH s profits as stipulated below:

**In 1999, the financial obligation of the National Bank of Hungary due to the Founder is
HUF 35,204 million
that is, thirty five billion two hundred and four million forints.**

**A. The advance payment of dividend by the NBH in 1999 is
HUF 35,204 million
that is, thirty five billion two hundred and four million forints.**

Consequently, there are no mutual assets and liabilities between the Founder and the NBH.

B. As a balance of results for 1999 and the established amount of dividends,

**HUF 148 million
that is, one hundred and forty eight million forints balance sheet profit**

is transferred to retained earnings;

C. Based on Section 20 of Act LX of 1999 on the national Bank of Hungary, the central government shall reimburse

**HUF 4,217 million
that is, four billion two hundred and seventeen million forints
to retained earnings by January 15, 2001.**

Following announcement of the resolution, the director of the Secretariat presented the balance sheet and profit and loss account, which were then signed by Mr. *Sur nyi*, and then by Mr. *J rai*.

13. Item 5 on the Agenda pertains to the amendment of the Statutes of the National Bank of Hungary. As Mr. *Sur nyi* explained, the purpose of the amendment was to make the Statutes conform with the presently existing situation (e.g. the number of Vice-Presidents at the NBH has fallen to one), in such a manner that the Statutes will be flexible enough to handle any future changes. Such amendment requires the alteration of a single provision of the Statutes, namely Point 1 of Chapter IV. By way of information, Mr. *Sur nyi* also noted that due to the recent amendment of the law and other legal regulations, and as the Bank is beginning to prepare the amendment of the Central Bank Act within the framework of EU legal harmonisation, the Bank was planning on conducting a comprehensive review of its own Statutes. The present amendment was necessary due to the current circumstances.

14. Following this, Mr. *Sur nyi* asked the Meeting if it approved the amendment of the NBH's Statutes, in accordance with the proposal on the resolution.

Mr. *J rai* answered, **Yes** .

15. Mr. *Sur nyi* noted that the Meeting had approved the amendment of the NBH's Statutes.

Resolution No. 3/2000 of the Shareholders Meeting

The Shareholders Meeting has amended the Statutes of the National Bank of Hungary in accordance with the submitted proposal.

16. The next task facing the Meeting (Item 6 of the Agenda) was the settlement of certain personnel matters. The mandates of two of the Members of the Board of Directors, Managing Directors Messrs. *d m Farkas* and *L szló Török*, expire as of the current Meeting. With due consideration of the fact that both gentlemen attended to their responsibilities in a highly professional manner and successfully for the Bank, Mr. *Sur nyi* proposed that the Meeting re-elect the gentlemen as members of the Board of Directors of the NBH, for the period of time stipulated in the Statutes.

17. Mr. *Sur nyi* asked the Minister of Finance if he approved of the appointments.

Mr. *J rai*, replied, **Yes** .

18. Mr. *Sur nyi* noted that the Meeting had re-elected Messrs. *d m Farkas* and *L szló Török* as members of the Board of Directors of the NBH until the ordinary Shareholders Meeting to be held in 2003. Mr. *Sur nyi* congratulated the gentlemen on their election as members of the Board of Directors and wished them continued success in their work.

Resolution No. 4/2000 of the Shareholders Meeting

Based on the Statutes, the Shareholders Meeting has re-elected Managing Directors Messrs. *d m Farkas* and *L szló Török* as members of the Board of the National Bank of Hungary for the period until the ordinary Shareholders Meeting to be held in 2003.

19. Item 7 of the Agenda involves the determination of the remuneration of the officers of the NBH. Mr. *Sur nyi* pointed out that the management of the NBH had already sent its proposal on this point to the Minister of Finance earlier, which he had signed in agreement.

20. For the sake of formality, Mr. *Sur nyi* asked the Minister of Finance if he approved the proposal submitted on the remuneration of the officers of the NBH.

Mr. *J rai* had certain comments to add on this point: With due consideration of the fact that in 1999, contrary to the intentions and resolutions of the Government, the management of the NBH and the Board of Supervisors of CWAG Bank continued to provide support for business activities and liquida-

tion procedures at CWAG, that were, in the opinion of the Ministry of Finance, inappropriate, the Ministry of Finance does not authorise the payment of 50% of bonuses, over and above the basic pay for 2000, to the President of the NBH, the Chairman of the Board of Supervisors of CWAG and all other senior officers of the NBH with membership in the Board of Supervisors of CWAG.

21. Mr. *Sur nyi* noted that the Minister of Finance had approved the proposal with this amendment, i.e. the Meeting had approved the original proposal on the remuneration of senior officers.

Resolution No. 5/2000 of the Shareholders Meeting

The Shareholders Meeting has accepted the remuneration of the individual officers of the Bank in accordance with the relevant proposal, with the amendment proposed by the Minister of Finance, as the representative of the State, the sole owner of the NBH, stipulating that the Ministry of Finance does not authorise the payment of 50% of bonuses, over and above the basic pay for 2000, to the President of the NBH, the Chairman of the Board of Supervisors of CWAG and all other senior officers of the NBH with membership in the Board of Supervisors of CWAG.

(The Human Resources Department of the National Bank of Hungary will attend to the handling of the proposal serving as the basis for Resolution No. 5/2000 of the Shareholders Meeting.)

22. The President of the NBH noted that with this step the decision making phase of the Meeting had come to an end.

23. Mr. *Sur nyi* pointed out that, traditionally, Item 8 of the Agenda was reserved for discussing the press statement, which was previously sent, or rather the amended, new version of which was sent to the participating parties. Nonetheless, this year the Meeting had decided to depart from this tradition, as was discussed earlier. In the event that the Minister of Finance insists that the Shareholders Meeting press release of the NBH be appended with the announcement of the Ministry of Finance, he himself, as he pointed out once again, could not accept this, as he did agree with the contents of such announcement. For this reason, the NBH must add its own comments and remarks to the announcement.

Mr. *J rai* stated that he would find any of the options acceptable: for example, if the NBH published its own press release as submitted to the Meeting and the Ministry of Finance publishes its own announcement, in which the passages he read would be included. Another possible solution would be for the NBH to add its comments to the press release read by the Ministry of Finance, which the Ministry of Finance would then append to its statement. The first solution seemed more simple, but he would also accept the second solution. In any case, though, the press statement must be released after the meeting.

Ms. *V rhegyi* noted that if the Meeting accepted the first solution, there would be no way for the NBH to add its comments.

24. At that point Mr. *Sur nyi* decided that two separate press releases would appear in the press: that of the Ministry of Finance and that of the NBH, and that the NBH would add its written comments to the press release to be published by the Ministry of Finance.

25. Given that there was no other business remaining, Mr. *Sur nyi* thanked the participants and adjourned the Shareholders Meeting.

Done at Budapest,
May 26, 2000

Ms. *K roly Nagy*
Keeper of the Minutes
m. p.

In certification of the authenticity
of the Minutes:

Zsigmond J rai
Minister of Finance
m. p.

Werner Riecke
Vice-President of the
National Bank of Hungary
m. p.

György Sur nyi
President of the National
Bank of Hungary
m. p.

Note: Pursuant to the Government Resolution, the documents relating to the correspondence by the National Bank of Hungary on the acquisition of CWAG by the Hungarian Development Bank is included in the Hungarian version of the NBH's Annual Report.

APPENDIX

SUBJECTS OF THE MEETINGS OF THE BOARD OF DIRECTORS IN 1999

January 15, 1999

Proposal on the modification of central bank policy instruments
 Proposal on the amount of the NBH's contribution to foundations and the amount of support to commitments serving public interests in 1999
 Miscellaneous (measures necessary in relation to the planned sale of CWAG)

January 22, 1999

Measures necessary in relation to the planned sale of CWAG (II.)

February 12, 1999

Issues related to establishing responsibilities in the CWAG case

February 17, 1999

Issues raised by the Bank in relation to the switch to a universal banking system, with special regard to the rules of compulsory reserves
 Central bank regulations governing compulsory reserves on long-term foreign liabilities
 Proposal on the sale of the NBH's equity in CWAG in co-operation with the Government
 Current issues of monetary policy

February 23, 1999

Tasks of the NBH as a regulatory and supervisory authority in relation to the Y2K date change
 The NBH's foreign exchange reserve management policy for 1999
 Fund raising abroad with the aim of replenishing official reserves in 1999

March 12, 1999

Amendment of the NBH's Rules of Procedure
 Report on the results of central bank and foreign exchange regulatory controlling in 1998
 Draft of the central bank and foreign exchange regulatory controlling strategy in 1999
 Audit of cash balances in relation to the Y2K date change
 Divesting the bad loan portfolio of CWAG

Proposal on the concept of introducing electronic money in Hungary

March 25, 1999

Supervision by the NBH of the management of CWAG's divested asset portfolio
 Summary report on preparations for the Y2K date change

April 2, 1999

Proposal on bank holidays to be ordered in connection with the Y2K date change
 Supervision by the NBH of the management of CWAG's divested asset portfolio (revised document)
 Proposal on issues related to regulation of short-term capital flows
 Maintenance of settlement account for the Hungarian Post Office

April 16, 1999

Annual accounts of the NBH for 1998 (Volume I.)
 Proposal and report to the 1999 ordinary Shareholders Meeting on the NBH's 1998 business year (Volume II.)
 Overview of repo markets; experiences of Hungary and future possibilities
 Proposal for the Shareholders Meeting of the National Bank of Hungary on the amendment of the NBH's Statutes

April 22, 1999

Decision to be made by the Owner in relation to the management of CWAG's bad loan portfolio

April 28, 1999

Owner's contribution to CWAG

May 6, 1999

Miscellaneous
 Current issues of monetary policy
 Proposal on the current state of preparations for the Y2K date change
 Report on the results of internal auditing in 1998

May 11, 1999

Report on the operation of the banking system in 1998
 Necessary changes to monetary policy instruments with special regard to the launch of VIBER
 Proposal for the Board of Directors on the central bank's communication strategy in respect of management of the Y2K problem

May 31, 1999

Necessary changes to monetary policy instruments with special regard to the launch of VIBER
 Operation of ATM and POS terminals in relation to the Y2K date change
 Amendment of the NBH's Rules of Procedure
 Miscellaneous

June 15, 1999

Report on the Shareholders' Meeting of CWAG and forthcoming measures
 Revision of the Board's resolutions in force, in respect of CWAG
 Working schedule of the Board of Directors for the second half of 1999 and proposal on the working schedule of the Central Bank Council for the second half of 1999
 Miscellaneous (Report for the Board of Directors on the amendment of the procedure for ordering banknotes and coins in 1999)

June 18, 1999

Report on the Shareholders' Meeting of CWAG and proposal on forthcoming measures (II.)

July 5, 1999

Modification of the date of withdrawal of old 500-, 1000- and 5000-forint banknotes
 Progress report on the fulfilment of tasks related to the Y2K date change

September 10, 1999

Amendment of the NBH's Rules of Procedure
 The central bank's communication strategy in respect of management of the Y2K problem

September 16, 1999

Proposal on the procedure for ordering banknotes and coins in 2000
 Commemorative coin programme of the NBH for 2000

September 22, 1999

Monetary policy alternatives towards the end of 1999
 Report: Expected macroeconomic developments, 1999-2000
 Background material for the 2000 Monetary Policy Guidelines
 Management of refinancing lines in the future
 Proposal on the harmonisation of the NBH's accounting system with EU standards
 Progress report on the implementation of the Real Time Gross Settlement System (VIBER)
 Report on the fulfilment of tasks related to the Y2K date change
 Questions and answers relating to central bank's communication strategy in respect of management of the Y2K problem (II.)
 Central bank sanctions policy and planned measures in relation to preparations by the financial sector for the Y2K date change
 Review of credit institutions' and other participants' contingency plans to ensure continuous operations

October 13, 1999

Monetary Policy Guidelines for 2000
 Strategy for joining the exchange rate mechanism of the European Union
 Central bank's medium-term issuing activity
 Further development of the NBH's cash management, recording and circulation systems
 Basic concepts for extraordinary central bank lending in case of emergency situations related to Y2K
 Owner's permission for the sale of the head office building of Central Wechsel und Creditbank AG, Vienna, (CWAG)
 Miscellaneous

November 5, 1999

Proposal on the fulfilment of Y2K-related tasks
 Strategic alternatives of Hungarian Banknote Printing Corp.
 Operations of the NBH immediately before and after the Y2K date change
 Temporary increase in the credit line of the Hungarian Post Office in 2000

November 17, 1999

Proposals on changes to the foreign exchange regulations
 Evaluation of tests mandated for credit institutions directly joining the Interbank Clearing System
 Working order of ATM and POS terminals in relation to the Y2K date change
 Miscellaneous

December 7, 1999

Reform of the compulsory reserve system

December 10, 1999

Amendment to the NBH's Rules of Procedure

Investment and operating budget of the NBH for 2000, and medium-term plans for investment projects

December 17, 1999

The NBH's foreign exchange reserve management policy for 1999

Further development of the system of safeguards against counterfeiting forint banknotes

Proposal No. 020/81/1999 of the Issue Department

Amendment of the NBH's Rules of Procedure

Working plan of the Board of Directors of the NBH for the first half of 2000; proposal on the working schedule of the Central Bank Council for the first half of 2000

SUBJECTS OF THE MEETINGS OF THE CENTRAL BANK COUNCIL IN 1999

March 4, 1999

Economic policy alternatives and potential dangers (evaluation of 1998 economic developments and prospects for 1999)
 Current issues of monetary policy
 Interest rate policy strategy in 1999 (reference document)

April 13, 1999

Change in the monthly devaluation rate of the forint

April 19, 1999

Proposal and Report to the Shareholders Meeting of the NBH on the 1998 business plan of the NBH
 Miscellaneous (Change in the monthly devaluation rate of the forint; and: Conducting monetary policy in a wide exchange rate band system)

June 22, 1999

Macroeconomic developments in 1999 to date and prospects
 Current issues of monetary policy
 Reference material for the Central Bank Council on issues related to the regulation of short-term capital flows
 Proposal on the amendment of the Council's Rules of Procedure

September 23, 1999

Monetary policy alternatives towards the end of 1999
 Reference material: Expected macroeconomic developments in 1999-2000
 Background material: Quarterly report on inflation
 Background material for the 2000 Monetary Policy Guidelines

October 14, 1999

Monetary Policy Guidelines for 2000 Appendix: Alternatives for the economic policy course in 2000

October 21, 1999

Monetary Policy Guidelines for 2000
 Strategy of joining the exchange rate mechanism of the European Union

December 14, 1999

Summary and proposal on the determination of the exchange rate path for 2000
 Evaluation of economic and financial developments (Report on Inflation)

December 17, 1999

Reform of the compulsory reserves system

SUBJECTS OF THE MEETINGS OF THE BOARD OF SUPERVISORS IN 1999

February 22, 1999

Amendment of the Board of Supervisors Rules of Procedure
 Discussion of the report on the financial situation of CWAG
 Approval of the Internal Audit Department's working plan for 1999
 Discussion and approval of the Board of Supervisors working schedule for 1999
 Miscellaneous

March 11, 1999

Determination of the organisation and tasks of the Secretariat of the Board of Supervisors; aspects of staff selection

March 23, 1999

Preliminary report on the Bank's balance sheet and profit and loss account for 1999
 Report on the reasons for the change to the NBH's profit and loss account for November 1998, with special regard to documents K1026/98 and K1045/98, submitted by Head of Department Peter Tabák to the Board of Supervisors, and report on the changes to the rules of the NBH's compulsory reserve system
 Report on the activities of the Internal Audit Department in 1998
 Report of the Internal Audit Department on examinations closed or soon to be accomplished
 Miscellaneous

April 22, 1999

Proposal and report to the NBH's Shareholders Meeting on the 1998 business year (Balance sheet and profit and loss account of the Bank)
 Proposal of the Board of Supervisors to the Shareholders Meeting on the approval of the balance sheet and profit and loss account for 1998
 Report on the activities of the Internal Audit Department in 1998
 Discussion of the report of the Internal Audit Department on its retrospective examination at the Diósgyőr Paper Mill
 Miscellaneous

May 3, 1999

Proposal and report to the NBH's Shareholders Meeting on the 1998 business year (Balance sheet and profit and loss account of the Bank)
 Report to the NBH's Shareholders Meeting on the opinion of the Board of Supervisors relating to the 1998 balance sheet and profit and loss account
 Amendment of the Board of Supervisors Rules of Procedure

May 25, 1999

Report by the members of the Board of Supervisors on the activities of the Board between May 1998-May 1999
 Experiences with the reorganisation of the NBH's regional directorates
 Report on the planned measures taken in relation to the Y2K problem
 Discussion of the report on the introduction of the analytic account management system (Project CA-2 Bankmaster Foreign exchange system)
 Budgeting and organisational issues related to the activities of the Board of Supervisors (closed session)

June 28, 1999

Report by the members of the Board of Supervisors on the activities of the Board between May 1998-May 1999
 Report on the enterprises owned by the NBH
 Report on the internal audit activities of the NBH in 1998
 Report on the experiences with the changeover to the euro
 Report on the results of the Internal Audit Department in examinations conducted since the latest session of the Board of Supervisors

- a) Swap transactions
- b) Forward and futures transactions
- c) Asset maintenance

 Budgeting in relation to the activities of the Board of Supervisors

September 21, 1999

Report on the financial situation of CWAG
 Report on the implementation of the investment and cost plan for 1999

Report on issues related to money counterfeiting
 Report on the staff level and wage policy of the NBH Examiners report by the Internal Audit Department No. 10/1999 Sale and purchase of foreign-issued securities with the purpose of resale. Transactions with long-term securities or those held until maturity

October 19, 1999

Report on the financial situation of CWAG
 Balance sheet and profit and loss account of the NBH for the first half of 1999
 Progress report on the implementation of the Real Time Gross Settlement System (VIBER)
 Report on the activities of the Investment and Budgeting Committee
 Report on the results of the Internal Audit Department in examinations conducted since the latest session of the Board of Supervisors

- a) Examination of the admission system
- b) Development and operations of the NBH's controlling system

November 25, 1999

Report on the financial situation of CWAG
 Experiences with the operations of the Censorship Committee
 Report on the funding relationship of the NBH and general government
 Review of the NBH's foreign exchange reserve management operations
 Review of the possible coverage and necessity of extra audit services as provided for in the auditor's contract for 1999
 Report on the results of the Internal Audit Department in examinations conducted since the latest session of the Board of Supervisors

- a) Money-market transactions in forint and foreign currency, and lending/deposit transactions
- b) Review of building operations activities

December 9, 1999

Report on the financial situation of CWAG
 Report on the activities of the ALCO Committee
 Working plan of the Board of Supervisors for 2000
 Determination of criteria of the choice of experts to be assigned by the Board of Supervisors, invitation for tender, approval of the general contract

MEMBERS OF THE GOVERNING BODIES OF NATIONAL BANK OF HUNGARY IN 1999

Members of the Board of Directors

Dr. György Surányi, President

Imos Kovács, Vice-President (Mr. Kovács's term as Vice-President and member of the Board expired on December 11, 1999; appointed to the Board as Managing Director by the Founder on December 12, 1999)

Werner Riecke, Vice-President

Dr. György Szapry, Vice-President (Mr. Szapry's term as Vice-President and member of the Board expired on September 10, 1999)

Dr. István Farkas, Managing Director

Ferenc Karvalits, Managing Director

Éva Ladányi-Kiss, Managing Director

Judit Neményi, Managing Director

Dr. László Török, Managing Director

Members of the Central Bank Council

Dr. György Surányi, President

Imos Kovács, Vice-President (Mr. Kovács's term as Vice-President and member of the Board expired on December 11, 1999)

Werner Riecke, Vice-President

Dr. György Szapry, Vice-President (Mr. Szapry's term as Vice-President and member of the Board expired on September 10, 1999)

Dr. Tibor Erdős

Dr. Béla Kádár (from September 1, 1999)

Dr. János Kornai

Dr. János Szász

Members of the Board of Supervisors

Chairman: **Dr. László Kelemen**

Members: **Péter Adamecz**

László Akar

Dr. Csaba László (Mr. László resigned his membership on June 15, 1999)

Antal Vattay

Dr. Éva Várhelyi

I. GROSS DOMESTIC PRODUCT (GDP)

VOLUME INDICES OF GROSS DOMESTIC PRODUCT (GDP)

Per cent

Year	Gross domestic product (GDP)	Of which			Domestic use	Of which	
		Industry ^{a)}	Construction	Agriculture and forestry		Final use	Gross fixed capital formation
<i>1980 = 100</i>							
1985	109.1	112.2	93.4	116.4	100.3	107.6	82.5
1986	110.7	111.9	93.5	120.8	104.2	110.2	89.6
1987	115.2	115.4	100.8	116.8	107.5	113.8	92.5
1988	115.1	113.7	95.3	126.4	104.4	110.6	89.4
1989	115.9	111.4	103.2	124.8	105.3	111.5	90.5
1990	111.8	103.0	80.6	119.1	102.0	108.5	86.7
1991	98.5	84.7	68.5	109.5	92.7	103.0	68.4
1992	95.5	79.0	69.8	91.4	89.4	103.6	54.4
1993	94.8	81.4	66.0	84.2	98.3	109.2	72.0
1994	97.5	86.3	69.1	83.9	100.5	106.7	86.3
1995	99.0	92.2	69.2	86.2	97.4	99.6	93.4
1996	100.3	95.2	64.2	89.7	98.2	96.7	105.4
1997	104.9	105.9	69.5	89.2	102.1	99.0	114.4
1998	110.1	114.7	73.5	87.9	110.1	103.0	134.0
1999 ^{c)}	115.0	124.1	76.6	86.8	..	107.5	..
<i>Previous year = 100</i>							
1986	101.5	99.7	100.1	103.8	103.9	102.4	108.6
1987	104.1	103.2	107.8	96.7	103.2	103.3	103.2
1988	99.9	98.5	94.5	108.2	97.1	97.2	96.7
1989	100.7	98.0	108.3	98.7	100.9	100.8	101.2
1990	96.5	92.4	78.1	95.4	96.9	97.3	95.8
1991	88.1	82.2	85.0	91.9	90.9	94.9	78.9
1992	96.9	93.3	101.9	83.5	96.4	100.6	79.6
1993	99.4	103.0	94.5	92.1	109.9 ^{b)}	105.4 ^{b)}	132.3
1994	102.9	106.0	104.7	99.6	102.2	97.7	119.8
1995	101.5	107.0	100.2	102.7	96.9	93.4	108.2
1996	101.3	103.2	92.8	104.1	100.8	97.1	112.8
1997	104.6	111.3	108.2	99.5	104.0	102.3	108.6
1998	104.9	108.3	105.8	98.5	107.8	104.1	117.1
1999 ^{c)}	104.5	108.2	104.2	98.7	..	104.3	..

Source: CSO

^{a)} According to the new Standard Industrial of All Economic Activities introduced in 1992 (mining, manufacturing, electricity, gas and water supply).^{b)} In 1993 including Russian arms deliveries received as compensation for debt amortization.^{c)} Preliminary data.

GROSS DOMESTIC PRODUCT BY INDUSTRIES

Industries ^{a)}	1991	1992	1993	1994	1995	1996	1997	1998
	At current prices, Ft billions							
Agriculture, forestry and fishing	195.1	189.9	206.0	262.3	332.9	402.4	445.1	491.4
Mining	81.8	32.2	20.1	20.0	22.9	25.9	33.9	28.1
Manufacturing	494.2	583.1	688.4	848.2	1,111.1	1360.9	1,804.5	2,135.1
Electricity, gas, heat and water supply	90.5	102.0	115.9	125.3	162.5	204.6	285.3	341.9
Construction	123.5	153.9	167.4	201.5	227.8	260.7	345.9	405.6
Trade, repair, maintenance	307.2	284.0	353.8	420.6	557.0	683.9	866.8	1,027.4
Hotels and restaurants	48.5	57.6	63.7	73.2	98.8	120.7	150.6	171.0
Transportation, storage, post and telecommunication	209.9	245.3	277.0	333.7	442.8	556.1	736.2	875.1
Finance and insurance	101.8	109.1	145.6	245.1	259.0	312.3	341.9	367.7
Real estate transactions leasing and services for business	234.8	317.3	412.2	525.2	706.1	963.7	1,105.0	1,318.8
Public administration, mandatory social security	147.1	187.4	235.8	290.3	351.0	417.0	525.9	638.7
Education	110.0	141.7	175.8	223.0	253.4	277.8	348.7	416.0
Health care and social services	95.8	123.8	151.1	189.2	228.4	272.7	337.4	390.7
Other communal, social and personal services	58.7	97.0	129.5	161.8	179.2	202.7	228.8	265.8
INDUSTRIES TOTAL (at basic price)	2,298.9	2,624.3	3,142.3	3,919.4	4,932.9	6,061.3	7,556.0	8,873.5
Imputed bank service change	-107.7	-100.6	-124.4	-199.1	-219.3	-218.9	-241.8	-245.1
GROSS DOMESTIC PRODUCT (at basic price)	2,191.2	2,523.7	3,017.9	3,720.3	4,713.6	5,842.4	7,314.2	8,628.4
Taxes less subsidies	307.1	419.0	530.4	644.5	900.4	1,051.5	1,226.5	1,459.1
GROSS DOMESTIC PRODUCT (at market prices)	2,498.3	2,942.6	3,548.3	4,364.8	5,614.0	6,893.9	8,540.7	10,087.4

Annex I/2 (continued)

GROSS DOMESTIC PRODUCT BY INDUSTRIES

Industries ^{a)}	1992 1991	1993 1992	1994 1993	1995 1994	1996 1995	1997 1996	1998 1997	1999 ^{b)} 1998
	Volume indices, per cent							
Agriculture, forestry and fishing	83.5	92.1	99.6	102.7	104.1	99.5	98.5	98.7
Mining	36.8	56.2	87.5	100.5	97.1	103.5	75.6	..
Manufacturing	101.6	105.9	106.7	108.2	104.0	113.4	110.3	109.7
Electricity, gas, heat and water supply	99.3	102.0	104.8	99.9	98.8	97.7	96.5	..
Construction	101.9	94.5	104.7	100.2	92.8	108.2	105.8	104.2
Trade, repair, maintenance	82.0	96.7	96.1	97.2	99.5	106.2	105.8	109.2
Hotels and restaurants	95.8	93.1	96.3	94.3	100.2	108.3	103.2	108.0
Transportation, storage, post and telecommunication	95.7	94.6	101.4	112.4	103.1	109.2	103.3	103.4
Finance and insurance	85.4	113.8	128.1	82.4	99.7	94.8	95.1	..
Real estate transactions leasing and services for business	103.4	103.0	105.6	97.7	108.2	96.4	106.0	..
Public administration, mandatory social security	103.6	101.4	102.6	100.0	102.3	101.8	105.2	..
Education	104.2	101.5	104.1	96.6	100.0	104.5	103.8	..
Health care and social services	104.3	104.3	103.5	96.5	103.2	105.1	101.7	..
Other communal, social and personal services	129.1	110.9	105.7	81.1	92.5	96.9	97.4	105.0
INDUSTRIES TOTAL (at basic price)	94.9	100.6	104.3	100.5	102.2	104.7	104.7	..
Imputed bank service change								
GROSS DOMESTIC PRODUCT (at basic price)	95.9	100.3	102.9	101.5	103.1	105.1	105.2	..
Taxes less subsidies	104.2	93.5	102.9	101.1	92.1	101.4	103.1	..
GROSS DOMESTIC PRODUCT (at market prices)	96.9	99.4	102.9	101.5	101.3	104.6	104.9	104.5

Source: CSO

^{a)} From 1992 the mining activity of MOL Rt is accounted for within the chemical industry. From 1993 the production of the collieries belonging to the electric energy complex is accounted for in electricity, gas, heat and water supply.

^{b)} Preliminary data.

USE OF GROSS DOMESTIC PRODUCT

	1991	1992	1993	1994	1995	1996	1997	1998
	At current prices, Ft billions							
Final consumption expenditure	2,011.5	2,477.5	3,131.3	3,678.8	4,341.6	5,119.5	6,198.3	7,307.4
<i>Of which:</i>								
household expenditure	1,746.3	2,141.1	2,639.9	3,151.7	3,724.0	4,415.9	5,297.5	6,282.8
government final consumption expenditure ^{a)}	264.6	336.4	491.4	527.1	617.6	703.6	900.8	1,024.6
Gross fixed capital formation	522.9	584.7	670.0	878.5	1,125.4	1,475.5	1,898.9	2,384.6
Changes in inventories	-11.9	-11.6	38.0	90.1	218.3	373.8	440.5	607.8
Gross capital formation, total	511.0	473.1	708.0	968.6	1,343.7	1,849.4	2,339.4	2,992.4
DOMESTIC USE	2,522.5	2,950.6	3,839.4	4,647.4	5,685.3	6,968.8	8,537.7	10,299.7
Exports	818.4	925.3	937.0	1,262.5	2,091.8	2,678.7	3,885.6	5,105.9
Imports ^{a)}	842.6	933.3	1,228.1	1,545.1	2,163.1	2,753.6	3,882.6	5,318.2
Balance of trade	-24.2	-8.0	-291.1	-282.6	-71.3	-74.9	3.0	-212.3
GROSS DOMESTIC PRODUCT (GDP) TOTAL	2,498.3	2,942.6	3,548.3	4,364.8	5,614.0	6,893.9	8,540.7	10,087.4

Annex I/3 (continued)

USE OF GROSS DOMESTIC PRODUCT

	<u>1992</u> 1991	<u>1993</u> 1992	<u>1994</u> 1993	<u>1995</u> 1994	<u>1996</u> 1995	<u>1997</u> 1996	<u>1998</u> 1997	<u>1999^{b)}</u> 1998
	Volume index, per cent							
Final consumption expenditure	100.6	105.4	97.7	93.4	97.1	102.3	104.1	104.3
<i>Of which:</i>								
household expenditure	100.0	101.9	99.8	92.9	97.3	101.7	104.9	104.6
government final consumption expenditure ^{a)}	104.9	127.5	87.3	95.9	95.8	105.7	99.7	102.2
Gross fixed capital formation	97.4	102.0	112.5	95.7	106.7	109.2	113.3	113.2
Changes in inventories	..	..	..	..	..	..	..	..
Gross capital formation, total	79.6	132.3	119.8	108.2	112.8	108.6	117.1	..
DOMESTIC USE	96.4	109.9	102.2	96.9	100.8	104.0	107.8	..
Exports	102.1	89.9	113.7	113.4	108.4	126.4	116.7	113.2
Imports ^{a)}	100.2	120.2	108.8	99.3	106.6	125.5	122.8	112.3
Balance of trade								
GROSS DOMESTIC PRODUCT (GDP) TOTAL	96.9	99.4	102.9	101.5	101.3	104.6	104.9	104.5

Source: CSO

^{a)} In 1993 and 1994 including Russian arms deliveries received as compensation for debt amortization (net of VAT and customs duties).^{b)} Preliminary data.

Annex I/4

PER CAPITA GROSS DOMESTIC PRODUCT

At current prices

	1991	1992	1993	1994	1995	1996	1997	1998 ^{a)}	1999 ^{a)}
Forint	241,476	285,040	344,707	425,365	548,836	676,315	841,039	997,415	1,141,000
USD	3,228	3,608	3,745	4,046	4,367	4,433	4,504	4,651	4,808
ECU	2,613	2,789	3,207	3,409	3,374	3,538	3,987	4,139	4,510
Average exchange rate, Ft/USD	74.81	79.00	92.03	105.13	125.69	152.57	186.75	214.45	237.31
Average exchange rate, Ft/ECU ^{b)}	92.70	102.10	107.50	124.78	162.65	191.15	210.93	240.98	252.80

Source: CSO, NBH

^{a)} Preliminary data.^{b)} From January 1, 1999 in EUR terms.

II. ECONOMIC DEVELOPMENTS

NUMBER OF BUSINESS ORGANISATIONS

End of period	Limited liability companies	Joint-stock companies	Cooperatives	Unlimited partnerships	Limited partnerships	Enterprises ^{a)}	Economic partnerships ^{b)}	Private enterprises
<i>Registered organisations</i>								
1990	18,317	646	7,132	418	5,789	2,363	20,600	393,450
1991	41,206	1,072	7,232	463	22,977	2,233	19,999	510,459
1992	57,262	1,712	7,694	1,187	41,218	1,733	17,595	606,207
1993	72,897	2,375	8,175	2,492	67,301	1,130	15,323	688,843
1994	87,957	2,896	8,252	3,348	89,045	821	13,416	778,036
1995	102,697	3,186	8,321	3,951	107,106	761	11,832	791,496
1996	122,044	3,536	8,362	4,394	127,725	683	10,871	745,247
1997	143,109	3,929	8,330	4,509	140,043	655	9,721	659,690
1998	157,990	4,251	8,230	5,006	161,857	619	9,357	648,701
1999	160,647	4,350	8,191	5,217	170,762	506	7,793	660,139
<i>Operating organisations^{c)}</i>								
1995	85,349	2,903	4,879	2,935	80,950	425	7,690	417,587
1996	104,166	3,232	4,858	3,558	107,782	335	7,169	460,163
1997	124,192	3,573	4,989	3,565	118,419	262	6,100	465,049
1998	134,107	3,736	5,668	4,063	140,449	141	5,939	458,355
1999	136,777	3,853	5,892	4,386	150,637	93	4,886	467,513

Source: CSO

^{a)} State-owned enterprises and other business organisations mandated by law to transform, such as subsidiaries, enterprises of legal entities, cooperative enterprises, and other business organisations.

^{b)} Ceasing form of enterprise.

^{c)} Operating enterprises are either those which submitted their tax returns (corporation tax, VAT etc.) in the base year or in the course of the previous year, or were founded in the base year. Registered but non-operating enterprises are those which wound up but remained in the records because of non-compliance with the reporting obligation; have been under liquidation procedure for years; do not pursue economic activity; have suspended their operation or have not yet started; were founded mainly for purposes other than enterprise (building associations, apartment buildings, building cooperatives, water utility associations); pursue business only occasionally (a part of private enterprises).

INDICES OF INDUSTRIAL OUTPUT AND SALES

At constant prices

Per cent

	Output	Sales total	Of which	
			Domestic	Exports
			Sales	
<i>1980 = 100</i>				
1987	115.4	111.8	108.7	122.9
1988	114.1	111.5	107.5	129.5
1989	108.4	106.7	103.2	128.2
1990	98.3	94.8	90.8	113.9
1991	80.3	77.5	75.0	86.9
1992	72.6	72.1	70.1	83.9
1993	75.5	74.2	72.7	84.1
1994	82.7	81.5	77.3	101.8
1995	86.5	84.6	76.1	120.9
1996	89.4	88.1	74.9	142.2
1997	99.4	97.1	74.0	190.7
1998	111.9	110.1	76.2	245.8
1999 ^{a)}	123.5	122.0	77.5	301.8
<i>Previous year = 100</i>				
1987	102.4	102.7	103.3	102.9
1988	98.9	99.7	98.9	105.4
1989	95.0	95.7	96.0	99.0
1990	90.7	88.9	88.0	88.8
1991	81.7	81.7	82.6	76.3
1992	90.3	93.1	93.4	96.6
1993	104.0	102.9	103.7	100.2
1994	109.6	109.8	106.4	121.0
1995	104.6	103.8	98.4	118.8
1996	103.4	104.1	98.5	117.6
1997	111.1	110.3	98.7	134.1
1998	112.6	113.3	103.1	128.9
1999 ^{a)}	110.4	110.9	101.6	122.8

Source: CSO

^{a)} Preliminary data.

INDICES OF INDUSTRIAL OUTPUT AND SALES BY SECTORS

At constant prices

Per cent

	Output	Sales total	Of which	
			Domestic	Exports
			Sales	
	<i>Previous year = 100</i>			
Mining	101.1	101.5	94.7	190.3
Food, beverages and tobacco products	102.8	103.8	105.8	96.9
Textiles, clothing and leather products	109.4	110.3	101.6	115.7
Leather and leather products	105.0	106.0	103.9	107.3
Wood and woods products	95.4	96.6	97.6	95.4
Paper products, publishing and printing	104.5	105.1	106.7	98.1
Coke, refined petroleum products and nuclear fuel	85.9	86.4	83.2	99.5
Chemical and chemical products	91.2	91.9	97.2	87.1
Rubber and plastic products	109.2	109.1	106	113.3
Other non-metallic mineral products	96.7	98.3	98.4	98.2
Basic metals and fabricated metal product	99.7	101.4	103.3	99.0
Machinery and equipment	106.7	107.2	97.9	115.9
Electrical and optical equipment	155.1	154.1	124.3	160.5
Transport equipment	120.3	120.7	97.3	123.8
Manufacturing n.e.c.	101.8	102.6	91.5	119.6
Manufacturing, total	112.5	113.1	101.9	123.3
Electricity, gas and water supply	98.1	98.4	99.3	69.0
Industry	110.8	111.3	101.3	122.9

Source: CSO

³⁾ Preliminary data. The data cover companies with more than 5 employees.

Annex II/4

INDICES OF INDUSTRIAL OUTPUT AND SALES

At constant prices, seasonally adjusted

Per cent

	Production ^{a)}	Sales total	Of which	
			Domestic	Exports
			Sales	
<i>Monthly average of 1992 = 100</i>				
January 1998	145.0	143.1	106.0	272.1
February	147.4	143.6	105.4	272.5
March	149.2	149.5	108.2	277.0
April	150.2	145.9	107.1	275.5
May	153.6	149.8	109.7	277.0
June	153.9	154.5	110.5	294.2
July	156.5	155.3	111.7	295.2
August	156.7	152.4	109.6	293.8
September	157.9	157.1	110.1	308.0
October	157.3	155.4	106.6	312.1
November	158.4	156.7	110.8	304.4
December	159.9	162.2	111.9	317.1
January 1999	158.4	152.0	106.7	312.7
February	155.9	152.9	107.6	310.4
March	159.8	164.6	108.4	336.0
April	161.2	157.3	106.3	330.0
May	162.2	160.5	107.9	337.1
June	167.5	168.8	108.3	356.6
July	168.2	165.4	110.0	341.1
August	172.8	173.8	112.6	384.8
September	180.7	180.1	112.0	394.8
October	184.0	177.3	115.5	375.3
November	183.6	184.1	116.9	403.3
December	180.4	185.4	115.9	407.1
<i>Average of previous year = 100</i>				
January 1998	106.1	106.4	100.3	120.0
February	107.8	106.8	99.7	120.2
March	109.2	111.2	102.3	122.1
April	109.9	108.5	101.3	121.5
May	112.4	111.4	103.8	122.1
June	112.6	114.9	104.5	129.7
July	114.5	115.5	105.7	130.2
August	114.6	113.4	103.7	129.6
September	115.5	116.9	104.1	135.8
October	115.1	115.6	100.8	137.6
November	115.9	116.6	104.8	134.2
December	117.0	120.7	105.8	139.8
January 1999	103.0	99.9	97.9	107.2
February	101.3	100.5	98.7	106.5
March	103.9	108.2	99.5	115.2
April	104.8	103.4	97.6	113.2
May	105.4	105.5	99.0	115.6
June	108.9	111.0	99.4	122.3
July	109.3	108.7	100.9	117.0
August	112.3	114.2	103.3	132.0
September	117.5	118.4	102.8	135.4
October	119.6	116.5	106.0	128.7
November	119.3	121.0	107.3	138.3
December	117.3	121.9	106.4	139.6

Source: CSO

^{a)} Seasonally adjusted output indices are shown after adjustment for working-day variations.

CONSTRUCTION INDUSTRY OUTPUT

	Overground construction	Civil engineering	Building and installation	Maintenance and modernization of buildings	Total
<i>Production at current prices. Ft billions</i>					
1992	62,118	49,498	78,690	16,313	206,619
1993	68,621	65,989	89,162	14,731	238,503
1994	77,528	106,110	107,331	16,068	307,037
1995	93,546	100,970	123,007	17,800	335,323
1996	113,339	117,992	162,428	21,628	415,387
1997	174,774	149,964	192,942	27,291	544,971
1998	200,190	207,674	248,371	20,845	677,080
<i>Volume index: 1980 = 100</i>					
1990	50.2	60.0	160.6	349.9	76.7
1991	41.4	60.5	142.0	284.5	67.0
1992	36.2	75.5	168.0	206.8	68.0
1993	35.7	88.6	171.6	167.1	69.8
1994	35.5	122.8	181.6	159.6	78.2
1995	30.8	97.3	161.1	116.7	66.0
1996	30.3	89.5	173.6	116.6	67.1
1997	34.9	94.3	190.0	123.8	72.3
1998	36.3	118.8	221.3	90.7	81.8
<i>Previous year = 100</i>					
1990	82.1	86.3	91.7	84.5	86.2
1991	82.6	100.9	88.4	81.3	87.4
1992	87.3	124.7	118.3	72.7	101.5
1993	98.6	117.4	102.2	80.8	102.6
1994	99.4	138.6	105.8	95.5	112.1
1995	87.0	79.2	88.7	73.1	84.3
1996	98.5	92.1	107.7	99.9	99.9
1997	114.8	105.3	109.5	106.2	109.7
1998	104.1	126.0	116.5	73.3	113.1

	Building of complete constructions or parts thereof, civil engineering	Building installation	Building completion	Total
<i>Production at current prices, Ft billions</i>				
1998	461.8	140.2	54.8	677.4
1999 ^{a)}	527.4	173.3	74.2	794.8
<i>Previous year = 100</i>				
1999 ^{a)}	103.0	113.7	124.5	106.4

Source: CSO

^{a)} Preliminary data.

PROCUREMENT VOLUME INDICES OF AGRICULTURAL PRODUCTS^{a)}

Per cent

	Products of plant cultivation and horticulture	Of which				Livestock and animal products	Total
		Plant products ^{b)}	Vegetables	Fruit	Vine-grape must, wine		
<i>1980 = 100</i>							
1987	99.8	104.4	106.1	94.2	75.6	105.1	102.8
1988	102.5	111.2	98.9	95.6	69.1	102.3	102.4
1989	92.2	107.1	80.7	84.3	37.1	99.0	96.1
1990	79.6	88.4	78.4	69.1	42.6	92.9	87.3
1991	71.1	88.7	65.3	40.2	20.6	75.4	73.6
1992	68.2	88.5	39.6	47.0	22.9	60.9	63.7
1993	39.1	47.9	30.1	29.2	17.6	49.8	44.6
1994	41.5	51.3	37.7	27.3	14.5	44.1	42.6
1995	49.7	62.9	49.1	18.4	21.9	48.6	48.7
1996	50.9	61.8	46.5	32.5	22.0	52.3	51.2
1997	48.2	57.2	46.6	28.8	29.0	50.6	49.1
1998	48.3	53.8	64.1	30.3	28.5	49.8	48.7
1999 ^{c)}	52.3	64.0	53.9	24.4	26.6	52.5	51.9
<i>Previous year = 100</i>							
1987	93.4	91.9	114.6	93.5	81.1	102.4	98.5
1988	102.7	106.5	93.2	101.5	91.4	97.4	99.6
1989	90.0	96.4	81.6	88.2	53.7	96.7	93.8
1990	86.3	82.5	97.2	82.0	114.9	93.8	90.8
1991	89.3	100.3	83.3	58.2	48.4	81.2	84.3
1992	95.9	99.8	60.7	116.9	111.1	80.8	86.6
1993	57.4	54.2	76.0	62.1	76.8	81.8	70.0
1994	106.0	106.9	125.1	93.7	82.4	88.7	95.6
1995	119.7	122.6	130.2	67.5	151.0	110.2	114.4
1996	99.6	94.9	94.8	173.7	100.6	107.6	103.9
1997	94.7	92.5	100.1	88.7	131.9	96.7	95.8
1998	100.2	94.0	137.7	105.0	98.1	98.5	99.3
1999 ^{c)}	108.3	119.0	84.1	80.7	93.6	105.4	106.6

Source: CSO

^{a)} Volume indices are based on data of procurement by economic organizations active in wholesale trade of agricultural products and by those in manufacture of food.^{b)} Cereals, pulses, industrial plants, potato, rough fodder, seeds.^{c)} Preliminary data.

RETAIL SALES^{a)}

	1990	1991	1992	1993	1994	1995	1996	1997	1998 ^{b)}
	<i>At current prices, Ft billions</i>								
Retail trade and catering total	1,078.8	1,320.5	1,569.5	1,967.3	2,047.9	2,396.5	2,793.2	3,197.6	3,865.0
Retail trade	948.3	1,173.9	1,387.5	1,744.6	1,908.4	2,225.3	2,594.0	2,949.0	3,561.9
Catering	130.5	146.6	182.1	222.7	139.4	171.2	199.2	248.6	303.1
	<i>Previous year = 100</i>								
<i>At current prices</i>									
Retail trade	118.7	123.8	118.2	125.7	..	116.6	116.6	113.7	120.8
Catering	126.5	112.3	124.2	122.3	..	122.8	116.4	124.8	121.9
Total	119.6	122.4	118.9	125.3	104.1	117.0	116.6	114.5	120.9
	<i>Previous year = 100</i>								
<i>At constant prices</i>									
Retail trade	..	71.2	96.3	103.2	..	91.7	95.1	98.4	108.7
Catering	..	77.1	106.8	100.1	..	99.1	92.5	106.8	104.6
Total	92.4	71.8	97.5	102.8	93.9	92.2	94.9	99.0	108.4

	Food, beverages and tobacco in specialized stores, and in non-specialized stores	Textiles, clothing, footwear and leather goods	Furniture, electrical hardware	Motor vehicles and parts	Automotive fuel	Books, newspapers, stationary and other retail sale	Other goods in non-specialized stores	Pharmaceutical and medical goods	Second-hand goods	Via mail order houses	Total
	<i>At current prices, Ft billions</i>										
1997	1,058.8	134.7	503.5	245.4	355.1	373.6	102.8	154.7	13.4	7.0	2,949.1
1998	1,286.6	194.5	657.5	493.6	427.2	372.1	122.4	107.9	12.4	8.6	3,682.8
1999 ^{b)}	1,450.5	237.1	694.1	619.3	547.8	450.8	166.6	132.1	15.5	9.3	4,323.0
	<i>Previous year = 100</i>										
1998	107.4	127.4	118.9	185.3	109.3	90.5	107.2	61.2	83.7	111.0	112.3
1999 ^{b)}	106.9	111.2	98.0	116.5	107.3	111.9	125.7	96.5	115.6	98.6	107.7

Source: CSO

^{a)} Due to changes to data collection and the method of estimation from 1994 data are not comparable with those for earlier periods.^{b)} Preliminary data.

DATA ON TRANSPORTATION^{a)}

	Goods transported	Of which		Freight ton kilometer	Of which	
		Rail transport	Road transport		Rail transport	Road transport
	Thousands tons			Million ton kilometers		
1988	347,818	111,760	210,747	47,806.0	21,057.0	7,180.0
1989	312,944	104,537	184,076	46,660.0	19,820.0	6977.0
1990	230,112	87,722	111,605	42,071.9	16,781.0	6921.0
1991	171,579	67,088	81,917	26,793.9	11,937.6	4435.2
1992	130,356	53,118	52,188	22,900.2	10,015.2	3379.1
1993 ^{b)}	107,454	43,573	39,752	16,456.7	7,708.2	3009.0
1994	112,300	48,238	40,916	15,248.7	7,706.8	2641.5
1995	179,626	51,032	104,618	23,674.7	8,421.9	9954.6
1996	164,022	49,035	90,527	24,873.7	7,633.5	1,181.7
1997	166,474	52,005	90,057	24,789.2	8,148.7	10,429.9
1998	208,316	53,655	128,666	27,144.0	8,150.0	12,592.0
1999 ^{c)}	215,252	49,564	141,316	26,328.0	7,715.0	13,135.0
<i>Previous year = 100</i>						
1989	90.0	93.5	87.3	97.6	94.1	97.2
1990	73.5	83.9	60.6	90.2	84.7	99.2
1991	74.6	76.5	73.4	63.7	71.1	64.1
1992	76.0	79.2	63.7	85.5	83.9	76.2
1993 ^{b)}	82.4	82.0	76.2	71.9	77.0	89.0
1994	104.5	110.7	102.9	92.7	100.0	87.8
1995	..	105.8	..	..	109.3	..
1996	91.3	96.1	86.5	105.1	90.6	102.3
1997	101.5	106.1	99.5	99.7	106.7	102.4
1998	125.1	103.2	142.9	109.5	100.0	120.7
1999 ^{c)}	103.3	92.4	109.8	97.0	94.7	104.3

Source: CSO

^{a)} From 1995, enterprises employing more than 50 in transportation, post and telecommunication. Data for companies with more than 50 employees prior to 1994. Consequently, the two periods are not comparable. Transport via pipeline includes performance of enterprises outside sector.

^{b)} Since June 1993 the activity of enterprises in sea transport registered in Hungary has been terminated.

^{c)} Preliminary data.

VOLUME INDICES ON FIXED INVESTMENTS

	Investments	
	1980 = 100	Previous year = 100
1981	94.8	94.8
1982	92.7	97.8
1983	89.9	97.0
1984	87.3	97.1
1985	85.3	97.7
1986	87.3	102.3
1987	93.9	107.6
1988	86.7	92.3
1989	90.5	104.4
1990	81.6	90.2
1991	71.6	87.7
1992	70.5	98.5
1993	72.3	102.5
1994	81.2	112.3
1995	76.9	94.7
1996	80.9	105.2
1997	87.5	108.2
1998	98.7	112.7
1999 ^{a)}	105.2	106.6

Source: CSO

^{a)} Preliminary data.

PERFORMANCE VALUE OF FIXED INVESTMENT

At current prices

	1997	1998	1999	Same period of previous year = 100
	Ft millions			
Whole economy investment, total	1,709,876	2,093,768	2,406,731	106.6
By sector				
Agriculture, hunting, forestry and fishing	61,833	76,798	79,189	96.7
Mining	5,360	6,417	10,211	149.6
Manufacturing	396,018	544,293	627,570	107.7
Electricity, gas, steam and water supply	115,046	149,886	167,201	103.8
Construction	29,177	38,860	46,762	112.1
Trade, repair, maintenance	109,137	148,931	181,747	113.2
Hotels and restaurants	16,439	20,675	25,973	115.7
Transport, storage and communications	323,930	394,743	431,526	101.9
Financial intermediation and auxiliary activities	42,880	70,505	68,112	90.5
Real estate, renting and business activities	386,857	377,108	461,225	111.6
Public administration, social security	66,194	74,860	102,964	127.0
Education	36,735	38,703	48,791	115.9
Health and social work	43,657	52,592	51,268	90.1
Other community, social and personal service activities	76,613	99,397	104,193	95.7
By category				
Construction	889,886	1,006,167	1,257,377	103.2
Machines	662,328	900,151	1,146,860	110.6

Source: CSO

III. EXTERNAL TRADE, TOURISM

**EXTERNAL TRADE ACCORDING TO CUSTOMS STATISTICS
AND OF THE NET BALANCE^{a)}**

EUR millions

Period	1998				1999			
	Exports	Imports	Balance	Net balance ^{b)}	Exports	Imports	Balance	Net balance
January	1,400.9	1,610.1	-209.2	-183.4	1,434.6	1,562.2	-127.6	-92.2
February	1,625.2	1,775.6	-150.4	-125.0	1,643.1	1,887.6	-244.4	-200.4
March	1,813.6	1,943.4	-129.8	-95.5	2,063.8	2,236.4	-172.6	-105.8
First quarter	4,839.7	5,329.1	-489.4	-403.8	5,141.6	5,686.2	-544.6	-398.4
April	1,687.2	1,910.7	-223.5	-171.3	1,663.9	2,055.5	-391.6	-283.1
May	1,710.8	1,892.0	-181.2	-127.1	1,814.5	2,013.8	-199.3	-119.8
June	1,708.9	2,007.1	-298.2	-205.5	2,023.0	2,255.8	-232.8	-121.3
Second quarter	5,106.9	5,809.8	-702.9	-503.9	5,501.4	6,325.1	-823.7	-524.3
First half of the year	9,946.6	11,138.9	-1,192.3	-907.8	10,643.0	12,011.2	-1,368.2	-922.7
July	1,743.4	2,020.6	-277.2	-244.4	1,975.7	2,206.2	-230.6	-151.5
August	1,386.7	1,654.5	-267.8	-240.9	1,704.6	1,922.7	-218.1	-152.1
September	1,933.5	2,003.1	-69.6	-39.9	2,146.2	2,398.8	-252.6	-179.5
Third quarter	5,063.6	5,678.2	-614.6	-525.3	5,826.5	6,527.8	-701.3	-483.1
October	1,831.0	2,011.4	-180.4	-112.5	2,265.9	2,516.7	-250.8	-149.8
November	1,835.0	2,022.0	-187.0	-126.9	2,386.7	2,577.8	-191.1	-103.6
December	1,828.7	2,061.1	-232.4	-141.5	2,364.8	2,652.1	-287.4	-307.3
Fourth quarter	5,494.7	6,094.5	-599.8	-380.9	7,017.3	7,746.6	-729.3	-560.7
Second half of the year	10,558.3	11,772.7	-1,214.4	-906.2	12,843.7	14,274.4	-1,430.6	-1,043.8
Total	20,504.9	22,911.6	-2,406.7	-1,814.0	23,486.8	26,285.6	-2,798.8	-1,966.6

Source: MEA; CSO

^{a)} Balance according to amount of balance of payments.^{b)} Estimate on the base of official US dollar data.

Annex III/2

**VALUE AND VOLUME INDICES ON TRADE BALANCE IN A BREAKDOWN
BY MAIN COMMODITY GROUPS OF COUNTRIES,**

On Forint basis, same period of previous year =100

Per cent

Year	Developed countries	CEECs ^{a)}	Developing countries	Total
Exports				
<i>Value index</i>				
1990	129.6	84.1	101.8	105.7
1991	145.4	86.2	132.1	124.3
1992	115.7	109.2	70.0	110.4
1993	92.2	109.9	99.0	97.2
1994	146.6	120.8	99.4	137.7
1995	139.3	156.4	139.0	145.2
1996	124.3	122.9	115.2	123.4
1997 ^{b)}	151.8	143.8	123.8	149.1
1998 ^{b)}	143.4	114.4	168.0	138.3
1999 ^{b)}	125.6	94.1	116.2	120.3
<i>Volume index</i>				
1990	112.1	79.3	94.7	95.9
1991	121.7	55.6	105.6	95.1
1992	105.5	98.6	68.8	101.0
1993	84.3	93.8	87.1	86.9
1994	123.3	104.0	85.5	116.6
1995	103.2	120.2	101.5	108.4
1996	105.7	103.5	96.2	104.6
1997 ^{b)}	132.3	125.2	106.4	129.9
1998 ^{b)}	125.5	104.7	151.6	122.1
1999 ^{b)}	120.9	90.7	116.9	115.9
Imports				
<i>Value index</i>				
1990	111.4	86.6	172.6	104.1
1991	171.3	121.5	125.3	153.9
1992	107.5	103.6	54.6	101.6
1993	123.2	156.7	137.3	132.3
1994	143.8	105.8	136.2	132.2
1995	125.7	130.4	155.1	127.0
1996	124.7	134.8	130.0	127.5
1997 ^{b)}	146.0	125.3	169.5	143.3
1998 ^{b)}	142.9	113.2	163.6	139.1
1999 ^{b)}	120.4	114.6	125.6	120.6
<i>Volume index</i>				
1990	96.5	86.1	141.9	94.8
1991	132.5	56.6	108.7	105.5
1992	93.6	98.9	60.1	92.4
1993	110.1	148.8	127.1	120.9
1994	124.0	92.3	114.2	114.5
1995	96.0	95.9	115.6	96.1
1996	104.2	109.2	105.9	105.5
1997 ^{b)}	130.8	105.3	146.8	126.4
1998 ^{b)}	125.0	112.1	150.9	124.9
1999 ^{b)}	114.3	106.0	122.3	114.3

Source: CSO

Note: Due to changes to the statistical system, value indices may not be produced automatically from indices for two successive years.

^{a)} Transition and non-market economies as well as formerly socialist states prior to 1997.

^{b)} Including customs-free trade.

EXTERNAL TRADE BY STRUCTURE OF PRODUCTS AND GROUPS OF COUNTRIES,^{a)}
JANUARY–DECEMBER 1999

EUR millions

Groups of countries	Foods, beverages, tobacco	Raw materials	Fuels	Manufactured goods	Machinery, transport equipments	Total
<i>Exports</i>						
Total	1,873.0	581.6	382.3	7,213.5	13,436.3	23,486.8
Of which:						
Developed countries	1,011.0	411.5	261.5	5,613.0	12,392.7	19,689.6
EU	913.3	392.4	259.7	5,059.5	11,279.8	17,904.6
EFTA	346.4	119.5	44.7	2,357.0	6,146.8	9,014.5
CEECs	752.2	144.2	114.4	1,396.0	506.7	2,913.5
CEFTA	413.3	63.1	66.1	940.9	358.3	1,841.7
CIS	151.7	43.9	6.3	262.0	95.5	559.3
Developing countries	89.6	9.3	6.4	164.6	466.9	736.8
Other	20.3	16.6	0.0	40.0	70.0	146.9
<i>Imports</i>						
Total	796.6	590.7	1,600.6	10,110.2	13,187.6	26,285.6
Of which:						
Developed countries	373.6	262.4	176.5	7,949.5	10,856.4	19,618.5
EU	297.5	227.8	174.2	7,007.6	9,231.4	16,938.5
EFTA	70.1	54.1	17.6	2,780.6	4,762.8	7,685.2
CEECs	127.1	255.2	1,421.3	1,394.4	563.1	3,761.0
CEFTA	113.5	121.1	240.3	970.6	455.3	1,900.9
CIS	5.4	138.8	1,170.7	386.6	95.1	1,796.6
Developing countries	285.2	58.6	0.4	571.8	1,375.9	2,291.9
Other	10.8	14.5	2.4	194.5	392.2	614.3

Source: MEA

^{a)} Excluding aggregated exports and imports estimate on the base of official US dollar data.

Annex III/4

EXTERNAL TRADE BY COMMODITY GROUPS,^{a)}
JANUARY–DECEMBER 1999

Per cent

Groups of countries	Foods, beverages, tobacco	Raw materials	Fuels	Manufactured goods	Machinery, transport equipments	Total
<i>Exports by commodity groups, per cent of total</i>						
Total	8.0	2.5	1.6	30.7	57.2	100.0
Of which:						
Developed countries	5.1	2.1	1.3	28.5	62.9	100.0
EU	5.1	2.2	1.5	28.3	63.0	100.0
EFTA	3.8	1.3	0.5	26.1	68.2	100.0
CEECs	25.8	5.0	3.9	47.9	17.4	100.0
CEFTA	22.4	3.4	3.6	51.1	19.5	100.0
CIS	27.1	7.8	1.1	46.8	17.1	100.0
Developing countries	12.2	1.3	0.9	22.3	63.4	100.0
Other	13.8	11.3	0.0	27.2	47.7	100.0
<i>Imports by commodity groups, per cent of total</i>						
Total	3.0	2.2	6.1	38.5	50.2	100.0
Of which:						
Developed countries	1.9	1.3	0.9	40.5	55.3	100.0
EU	1.8	1.3	1.0	41.4	54.5	100.0
EFTA	0.9	0.7	0.2	36.2	62.0	100.0
CEECs	3.4	6.8	37.8	37.1	15.0	100.0
CEFTA	6.0	6.4	12.6	51.1	24.0	100.0
CIS	0.3	7.7	65.2	21.5	5.3	100.0
Developing countries	12.4	2.6	0.0	25.0	60.0	100.0
Other	1.8	2.4	0.4	31.7	63.8	100.0

Source: MEA

^{a)} Estimate on base of official US dollar data.

EXTERNAL TRADE BY COUNTRY GROUPS,^{a)}
JANUARY–DECEMBER 1999

Per cent

Groups of countries	Foods, beverages, tobacco	Raw materials	Fuels	Manufactured goods	Machinery, transport equipments	Total
<i>Exports by country groups, per cent of total</i>						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Of which:						
Developed countries	54.0	70.7	68.4	77.8	92.2	83.8
EU	48.8	67.5	67.9	70.1	83.9	76.2
EFTA	18.5	20.5	11.7	32.7	45.7	38.4
CEECs	40.2	24.8	29.9	19.4	3.8	12.4
CEFTA	22.1	10.9	17.3	13.0	2.7	7.8
CIS	8.1	7.5	1.6	3.6	0.7	2.4
Developing countries	4.8	1.6	1.7	2.3	3.5	3.1
Other	1.1	2.9	0.0	0.6	0.5	0.6
<i>Imports by country groups, per cent of total</i>						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Of which:						
Developed countries	46.9	44.4	11.0	78.6	82.3	74.6
EU	37.3	38.6	10.9	69.3	70.0	64.4
EFTA	8.8	9.2	1.1	27.5	36.1	29.2
CEECs	16.0	43.2	88.8	13.8	4.3	14.3
CEFTA	14.2	20.5	15.0	9.6	3.5	7.2
CIS	0.7	23.5	73.1	3.8	0.7	6.8
Developing countries	35.8	9.9	0.0	5.7	10.4	8.7
Other	1.3	2.5	0.1	1.9	3.0	2.3

Source: MEA

^{a)} Estimate on base of official US dollar data.

**VALUE INDICES ON TRADE BALANCE IN A BREAKDOWN BY COMMODITY GROUPS
AND GROUPS OF COUNTRIES, JANUARY–DECEMBER 1999 (on base EUR)**

Same period of previous year =100

Groups of countries						Per cent
	Food, beverages, tobacco	Raw materials	Fuels	Manufactured goods	Machinery, transport equipments	Total
	<i>Exports</i>					
Total	86.7	96.4	98.6	107.6	126.2	114.5
Of which:						
Developed countries	94.6	102.0	98.5	110.3	128.6	119.6
EU	97.2	103.8	98.3	110.0	128.5	119.7
EFTA	106.0	85.3	118.5	105.3	141.0	114.3
CEECs	80.0	81.7	98.7	98.3	83.7	89.4
CEFTA	91.3	96.3	96.1	104.9	95.4	99.1
CIS	47.3	56.7	77.7	75.7	53.9	60.2
Developing countries	78.2	86.9	102.0	116.2	119.3	110.9
Other	54.5	136.1	17.8	77.5	384.6	123.1
	<i>Imports</i>					
Total	93.1	86.9	106.2	109.8	123.7	114.7
Of which:						
Developed countries	86.6	88.7	97.0	110.5	120.5	114.6
EU	89.5	89.7	96.7	111.3	121.1	115.3
EFTA	130.5	99.4	205.0	102.9	107.8	105.3
CEECs	109.8	98.0	107.7	102.8	137.2	108.6
CEFTA	112.8	114.9	124.3	108.4	146.8	118.4
CIS	81.5	87.6	105.4	97.7	112.3	102.3
Developing countries	95.2	56.4	8.4	119.7	133.9	119.8
Other	120.3	74.3	225.7	110.2	180.6	145.1

Source: MEA

^{a)} Estimate on base of official US dollar data.

**FORINT BASED UNIT VALUE INDICES OF FOREIGN TRADE IN A BREAKDOWN BY GROUPS OF COMMODITY
AND COUNTRY, JANUARY–DECEMBER 1999**

Corresponding period of previous year = 100

Country groups						Per cent
	Food, beverages, tobacco	Basic materials	Energy	Manufactured goods	Machinery, transport equipment	Total
	<i>Exports</i>					
Total	99.1	102.2	114.3	106.3	104.4	105.5
Of which:						
Developed economies	101.2	104.3	97.7	107.0	104.4	105.3
EU	101.6	104.8	97.6	106.7	105.2	105.7
CEECs	101.0	100.9	116.7	103.6	104.5	108.1
CEFTA	101.0	101.7	116.7	102.4	105.6	104.5
Developing countries	95.7	101.1	102.0	103.9	104.0	102.7
	<i>Imports</i>					
Total	101.2	99.5	105.0	105.7	103.2	103.8
Of which:						
Developed economies	103.1	101.3	100.3	105.8	103.3	103.9
EU	102.2	103.1	100.2	106.1	103.6	104.2
CEECs	99.3	95.4	116.7	105.9	107.2	103.7
CEFTA	101.7	96.6	120.0	105.0	107.0	105.0
Developing countries	99.3	97.6	104.5	107.9	96.6	99.4

Source: CSO

Table III/9

CURRENCY COMPOSITION OF MERCHANDISE FOREIGN TRADE

Foreign exchange	Foreign currency	Forint equivalent	Percentage
	In million units		
	January–December 1999		
	<i>Exports</i>		
Total		5,990,217.4	100.0
Of which:			
US dollar	5,364.3	1,272,779.7	21.2
Deutsche mark	22,418.0	2,898,231.3	48.4
Austrian schilling	20,450.9	375,668.0	6.3
Euro	2,825.0	715,399.9	11.9
Italian lira	1,760,848.5	229,773.8	3.8
French franc	3,200.6	123,297.9	2.1
Japanese yen	321.9	123,948.4	2.1
Pound sterling	1,924.2	4,007.3	0.1
Total		6,645,561.9	100.0
Of which:			
US dollar	6,315.7	1,498,217.3	22.5
Deutsche mark	21,588.1	2,789,904.4	42.0
Austrian schilling	25,861.2	474,937.2	7.1
Euro	3,163.2	801,503.3	12.1
Italian lira	1,995,295.3	260,406.7	3.9
French franc	4,790.7	184,571.5	2.8
Japanese yen	278.0	106,679.7	1.6
Pound sterling	18,107.5	37,847.9	0.6

Source: MEA

Annex III/10

MAIN INDICATORS OF TOURISM

Period	Foreign visitors	Of which: tourists	Foreign guest nights in commercial accommodation	Foreign guest nights in hotels	Hungarians travelling abroad
	In thousands				
1988	17,965	10,563	15,902	6,029	10,797
1989	24,919	14,490	16,829	6,580	14,476
1990	37,632	20,510	13,451	6,279	13,253
1991	33,265	21,860	11,501	5,735	14,317
1992	33,491	20,188	10,398	5,627	12,803
1993	40,599	22,804	10,502	5,877	12,115
1994	39,836	21,425	10,536	6,341	14,374
1995	39,240	20,690	9,998	6,323	13,083
1996	39,833	20,674	10,676	6,770	12,064
1997	37,315	17,248	10,656	6,906	12,173
1998	33,624	..	10,138	6,980	12,317
1999 ^{a)}	28,803	..	9,778	6,838	10,622
	<i>Previous year = 100</i>				
1988	94.8	..	90.8	94.4	150.0
1989	138.7	137.2	105.8	109.1	134.1
1990	151.0	141.5	79.9	95.4	91.6
1991	88.4	106.6	85.5	91.3	108.0
1992	100.7	92.4	90.4	98.1	89.4
1993	121.2	113.0	101.0	104.4	94.6
1994	98.1	94.0	100.3	107.9	118.6
1995	98.5	96.6	94.9	99.7	91.0
1996	101.5	99.9	106.8	107.1	92.2
1997	93.7	83.4	99.0	101.4	100.9
1998	90.1	..	99.1	101.1	101.2
1999 ^{a)}	85.7	..	96.9	98.0	86.2

Source: CSO

^{a)} Preliminary data.

IV. LABOUR FORCE, EMPLOYMENT, EARNINGS

ECONOMIC ACTIVITY OF THE 15–74 YEAR OLD POPULATION
According to international labour standards

	Number of employees ^{a)}	Number of unemployed	Economically active	Economically inactive ^{b)}	Of which: discouraged unemployed	15–74 year old population	Activity ratio	Unemployment rate
	Thousands						Per cent	
1993 Q1	3,823.0	546.5	4,369.5	3,391.4	118.5	7,760.9	56.3	12.5
Q2	3,844.2	518.1	4,362.3	3,400.2	111.3	7,762.5	56.2	11.9
Q3	3,831.1	517.0	4,348.1	3,415.8	119.1	7,763.9	56.0	11.9
Q4	3,811.1	494.1	4,305.2	3,461.3	117.1	7,766.5	55.4	11.5
1994 Q1	3,711.9	482.1	4,194.0	3,586.3	116.4	7,780.3	53.9	11.5
Q2	3,746.8	448.5	4,195.3	3,585.4	107.9	7,780.7	53.9	10.7
Q3	3,784.9	435.8	4,220.7	3,558.6	106.7	7,779.3	54.3	10.3
Q4	3,763.5	431.2	4,194.7	3,582.3	101.1	7,777.0	53.9	10.3
1995 Q1	3,640.4	432.0	4,072.4	3,746.1	100.6	7,818.5	52.1	10.6
Q2	3,665.0	410.6	4,075.6	3,745.3	107.9	7,820.9	52.1	10.1
Q3	3,693.8	415.4	4,109.2	3,710.8	110.3	7,820.0	52.5	10.1
Q4	3,716.2	408.1	4,124.3	3,695.3	108.0	7,819.6	52.7	9.9
1996 Q1	3,593.6	422.4	4,016.0	3,790.2	107.4	7,806.2	51.4	10.5
Q2	3,627.8	399.3	4,027.1	3,780.7	102.3	7,807.8	51.6	9.9
Q3	3,658.5	403.6	4,062.1	3,747.3	102.1	7,809.4	52.0	9.9
Q4	3,712.2	375.2	4,087.4	3,721.3	95.2	7,808.7	52.3	9.2
1997 Q1	3,604.0	372.1	3,976.1	3,821.2	101.4	7,797.3	51.0	9.4
Q2	3,615.5	367.5	3,983.0	3,818.7	89.5	7,801.7	51.1	9.2
Q3	3,654.7	345.9	4,000.6	3,800.1	89.6	7,800.7	51.3	8.6
Q4	3,710.9	309.8	4,020.7	3,779.7	98.4	7,800.4	51.5	7.7
1998 Q1 ^{c)}	3,641.1	346.6	3,987.7	3,776.2	117.6	7,763.9	51.4	8.7
Q2	3,663.5	319.2	3,982.7	3,777.4	114.8	7,760.1	51.3	8.0
Q3	3,716.3	302.8	4,019.1	3,734.8	105.0	7,753.9	51.8	7.5
Q4	3,770.0	283.6	4,053.6	3,692.1	104.2	7,745.7	52.3	7.0
1999 Q1	3,764.6	301.7	4,066.3	3,668.0	118.5	7,734.3	52.6	7.4
Q2	3,804.8	281.2	4,086.0	3,634.6	108.6	7,720.6	52.9	6.9
Q3	3,832.9	287.2	4,120.1	3,590.0	102.8	7,710.1	53.4	7.0
Q4	3,843.6	268.9	4,112.5	3,590.3	106.6	7,702.8	53.4	6.5

Source: CSO

^{a)} Excluding child benefit recipients and together with conscripts.

^{b)} Including child benefit recipients.

^{c)} The sample design of LFS has been broader since January 1, 1998, consequently the data are not comparable with those for previous years.

ECONOMIC ACTIVITY OF THE 15-74 YEAR OLD POPULATION^{a)}
According to international labour standards, seasonally adjusted

	Number of employees ^{b)}	Number of unemployed	Economically active	Economically inactive ^{c)}	15-74 year old population	Activity ratio	Unemployment rate
	Thousands					Per cent	
1993 Q1	3,905.7	553.0	4,458.7	3,293.0	7,751.7	57.5	12.4
Q2	3,874.4	535.3	4,409.6	3,339.5	7,749.1	56.9	12.1
Q3	3,834.8	523.2	4,358.0	3,396.3	7,754.3	56.2	12.0
Q4	3,809.9	505.8	4,315.7	3,445.9	7,761.6	55.6	11.7
1994 Q1	3,797.5	485.1	4,282.6	3,487.2	7,769.8	55.1	11.3
Q2	3,784.2	463.0	4,247.1	3,516.1	7,763.2	54.7	10.9
Q3	3,779.9	442.5	4,222.4	3,535.9	7,758.2	54.4	10.5
Q4	3,750.2	443.9	4,194.2	3,570.3	7,764.5	54.0	10.6
1995 Q1	3,727.6	432.4	4,160.0	3,650.5	7,810.5	53.3	10.4
Q2	3,710.4	423.0	4,133.4	3,668.8	7,802.3	53.0	10.2
Q3	3,697.9	421.6	4,119.5	3,678.7	7,798.2	52.8	10.2
Q4	3,690.0	422.1	4,112.2	3,685.7	7,797.9	52.7	10.3
1996 Q1	3,676.0	423.0	4,099.0	3,698.3	7,797.3	52.6	10.3
Q2	3,677.5	410.1	4,087.6	3,703.1	7,790.7	52.5	10.0
Q3	3,672.9	408.9	4,081.8	3,708.3	7,790.2	52.4	10.0
Q4	3,678.7	390.8	4,069.5	3,712.8	7,782.3	52.3	9.6
1997 Q1	3,676.2	370.6	4,046.8	3,735.7	7,782.5	52.0	9.2
Q2	3,670.5	376.1	4,046.6	3,740.8	7,787.4	52.0	9.3
Q3	3,676.3	351.0	4,027.4	3,752.9	7,780.2	51.8	8.7
Q4	3,677.4	326.7	4,004.1	3,768.0	7,772.1	51.5	8.2
1998 Q1	3,676.9	324.1	4,001.1	3,748.6	7,749.7	51.6	8.1
Q2	3,685.6	315.0	4,000.7	3,754.8	7,755.5	51.6	7.9
Q3	3,705.7	309.9	4,015.6	3,750.3	7,765.9	51.7	7.7
Q4	3,740.0	303.1	4,043.0	3,726.1	7,769.1	52.0	7.5
1999 Q1	3,787.6	281.1	4,068.7	3,663.7	7,732.4	52.6	6.9
Q2	3,809.5	277.1	4,086.6	3,621.7	7,708.4	53.0	6.8
Q3	3,820.3	290.8	4,111.1	3,594.3	7,705.4	53.4	7.1
Q4	3,826.6	286.0	4,112.6	3,590.0	7,702.6	53.4	7.0

Source: CSO

^{a)} The seasonally adjusted data reflect the original sample and new weights, and so they are comparable with those for previous years. Excluding child benefit recipients and together with conscripts.

^{b)} Excluding child benefit recipients and together with conscripts.

^{c)} Including child benefit recipients.

NUMBER OF EMPLOYEES^{a)} BY SECTOR

Sectors	1998	1999	Change	
	Thousands		Per cent	Thousands
Agriculture, fishing	278.8	270.4	97.0	-8.4
Mining	25.6	24.4	95.2	-1.2
Manufacturing	912.0	928.9	101.8	16.9
Electricity, gas, steam and water supply	96.5	89.9	93.1	-6.6
Construction	230.0	253.0	110.0	22.9
Trade, repair of motor vehicles and household goods	472.2	517.5	109.6	45.4
Hotels and restaurants	121.6	133.2	109.5	11.6
Transportation, storage, post and telecommunication	302.0	308.3	102.1	6.3
Financial intermediation	81.9	80.9	98.8	-1.0
Real estate and renting	163.0	183.8	112.8	20.9
Public administration and compulsory social security	294.3	301.9	102.6	7.6
Education	305.5	306.9	100.5	1.4
Health and social work	237.8	239.2	100.6	1.4
Other community, social and personal service activities	176.4	173.3	98.3	-3.1
Total employees	3,697.6	3,811.5	103.1	113.9

Source: CSO

^{a)} Excluding persons on maternity benefit and together with conscripts.

Annex IV/2 (continued)

NUMBER OF EMPLOYEES^{a)} BY AGE GROUPS

Age groups (years)	1998	1999	Change	
	Thousands		Per cent	Thousands
15-19	85.7	69.8	81.4	-15.9
20-24	476.9	483.9	101.5	7.0
25-29	476.7	495.5	103.9	18.8
30-39	900.2	931.7	103.5	31.5
40-54	1,564.2	1,602.5	102.4	38.3
55-59	140.7	169.6	120.5	28.9
60-74	53.2	58.5	110.0	5.3
Total employees	3,697.6	3,811.5	103.1	113.9

Source: CSO

^{a)} Excluding persons on maternity benefit and together with conscripts.

UNEMPLOYMENT RATES BY SEX AND EDUCATION ATTAINMENT

Per cent

Quarter	According to sex ^{a)}		According to education attainment ^{b)}				
	Male	Female	Graduates	Secondary level	Primary level	Of which	
						less than 8 years	8 years
1993 Q1	13.9	10.9	3.0	16.2	18.4	27.7	17.5
Q2	13.2	10.2	2.9	11.5	17.4	27.8	16.4
Q3	13.1	10.4	3.1	11.7	16.9	26.5	15.9
Q4	12.7	10.0	3.1	11.1	16.7	27.6	15.8
1994 Q1	12.8	9.8	3.1	11.0	17.4	26.9	16.6
Q2	11.7	9.4	2.9	10.3	16.0	24.5	15.4
Q3	11.2	9.3	3.1	9.9	15.4	24.0	14.8
Q4	11.3	8.9	3.1	9.7	15.8	25.4	15.1
1995 Q1	12.1	8.6	3.0	10.0	16.7	26.7	16.0
Q2	11.4	8.3	2.7	9.6	16.0	25.4	15.4
Q3	11.0	9.0	3.4	9.6	15.6	26.1	14.9
Q4	10.7	8.9	2.7	9.6	15.3	26.3	14.6
1996 Q1	11.7	9.0	3.2	10.1	16.3	33.8	15.1
Q2	10.6	9.0	2.8	9.5	15.9	32.0	14.7
Q3	10.5	9.2	3.0	9.6	15.5	30.7	14.5
Q4	10.0	8.2	2.1	8.9	14.9	29.7	13.9
1997 Q1	10.4	8.0	1.4	8.7	16.0	33.1	15.1
Q2	10.0	8.2	1.9	8.7	16.0	32.7	15.0
Q3	9.3	7.8	2.0	7.9	14.8	28.8	14.0
Q4	8.3	7.0	1.9	6.7	13.5	29.3	12.6
1998 Q1 ^{c)}	9.4	7.8	2.1	8.0	14.9	34.5	13.9
Q2	8.7	7.1	2.0	7.4	13.7	34.1	12.7
Q3	8.2	6.7	1.9	7.1	12.5	29.2	11.7
Q4	7.6	6.3	1.7	6.7	11.7	29.2	10.9
1999 Q1	8.3	6.4	1.4	7.1	14.2	30.2	13.4
Q2	7.4	6.2	1.2	6.5	13.3	26.5	12.6
Q3	7.5	6.4	1.6	6.7	12.8	24.1	12.3
Q4	6.9	6.1	1.4	6.2	12.4	20.7	12.0

Source: CSO

^{a)} Excluding child benefit recipients and together with conscripts.^{b)} Excluding child benefit recipients and conscripts.^{c)} The sample design of LFS has been broader since January 1, 1998, consequently the data are not comparable with those for previous years.

UNEMPLOYMENT RATES BY REGIONSAccording to international labour standards^{a)}

Per cent

Budapest and the counties	1992	1993	1994	1995	1996	1997	1998 ^{b)}	1999
Budapest	6.7	9.4	8.9	7.2	8.4	7.0	5.5	5.3
Baranya	8.0	12.0	11.5	11.9	7.8	9.0	8.5	7.3
Bács-Kiskun	12.1	14.1	12.3	9.0	9.2	7.6	7.8	6.4
Békés	9.9	10.0	9.3	10.0	9.4	7.9	8.1	6.2
Borsod-Abaúj-Zemplén	13.3	16.3	15.5	16.2	15.6	15.3	13.8	13.1
Csongrád	7.8	11.9	9.4	8.9	6.4	6.4	7.1	4.5
Fejér	9.7	12.5	9.7	9.8	8.8	8.4	7.1	6.0
Győr-Moson-Sopron	7.3	8.9	7.4	6.4	6.7	6.2	5.1	3.7
Hajdú-Bihar	11.3	14.6	14.2	12.8	13.3	11.6	9.7	8.8
Heves	14.5	14.1	13.0	13.2	14.2	11.3	9.7	8.7
Jász-Nagykun-Szolnok	13.1	13.9	12.0	14.5	13.3	11.2	11.8	10.9
Komárom-Esztergom	13.1	13.2	10.5	12.3	13.3	9.7	6.5	6.6
Nógrád	14.9	17.1	16.1	18.7	15.7	13.2	10.8	10.9
Pest	8.8	10.5	8.3	7.5	7.5	6.6	5.9	5.0
Somogy	10.6	14.6	12.4	12.1	9.7	10.7	10.3	8.9
Szabolcs-Szatmár-Bereg	12.7	15.1	14.3	13.8	12.5	12.8	11.8	11.0
Tolna	10.7	11.2	11.6	11.8	11.1	10.1	9.5	8.8
Vas	6.5	7.0	4.9	5.7	5.5	4.2	5.5	4.7
Veszprém	12.0	11.7	11.6	10.7	9.6	6.3	6.4	5.6
Zala	7.7	10.5	10.7	8.6	8.9	7.4	7.9	5.1
Total	9.8	11.9	10.7	10.2	9.9	8.7	7.8	7.0

Source: CSO

^{a)} Excluding child benefits recipients and together with conscripts.^{b)} According to changes in the sample and new weights the 1998 data are not comparable with those for previous years.

**NUMBER OF REGISTERED VACANCIES, REGISTERED UNEMPLOYED
AND UNEMPLOYMENT BENEFIT CLAIMS**

Period	Vacancies		Registered unemployment		Unemployment benefit claims		Persons obtaining income support	
	Number	Preceding month = 100, per cent	Number	Preceding month = 100, per cent	Number	Preceding month = 100, per cent	Number	Preceding month = 100, per cent
December 1992	24,097	–	663,027	–	476,962	–	41,250	–
December 1993	28,089	–	632,050	–	326,618	–	141,451	–
December 1994	30,806	–	519,592	–	191,593	–	206,655	–
December 1995 ^{a)}	26,756	–	495,893	–	198,903	–	193,022	–
December 1996	35,540	–	477,459	–	139,408	–	211,615	–
December 1997 ^{b)}	36,317	–	463,962	–	136,707	–	194,522	–
December 1998	40,952	–	404,094	–	141,601	–	157,964	–
January 1999	43,196	105.5	434,692	107.6	156,803	110.7	160,606	101.7
February	49,451	114.5	442,552	101.8	151,907	96.9	171,628	106.9
March	52,024	105.2	437,515	98.9	148,027	97.4	176,125	102.6
April	51,060	98.1	421,716	96.4	139,821	94.5	173,600	98.6
May	52,757	103.3	406,266	96.3	135,592	97.0	167,747	96.6
June	54,068	102.5	394,371	97.1	133,221	98.3	164,115	97.8
July	54,826	101.4	400,644	101.6	132,675	99.6	159,228	97.0
August	53,919	98.3	396,841	99.1	132,248	99.7	153,910	96.7
September	56,019	103.9	397,185	100.1	130,893	99.0	150,499	97.8
October	55,327	98.8	389,377	98.0	135,566	103.6	146,737	97.5
November	49,808	90.0	388,558	99.8	141,458	104.3	144,966	98.8
December	42,579	85.5	404,509	104.1	150,389	106.3	148,729	102.6
December 1998 = 100, per cent	104.0		100.1		106.2		94.2	

Source: OMMK

^{a)} On May 1995, the number of registered unemployed excludes persons on child care benefit, conscript.

^{b)} From 1 January 1997, the registered unemployed exclude those having lost their entitlement to income support temporarily (e. g. employees for public use, military service).

NUMBER AND AVERAGE GROSS EARNINGS OF FULL TIME EMPLOYEES

Year, sector	Gross average earnings of manuals	Previous year = 100 ^{a)}	Gross average earnings of non-manuals	Previous year = 100 ^{a)}	Total	Previous year = 100 ^{a)}	Average number of employees, thousands
1988	–	–	–	–	8,968	109.8	4,197.7
1989	–	–	–	–	10,571	117.9	4,091.2
1990	–	–	–	–	13,446	128.6	3,829.0
1991 ^{b)}	14,189	127.4	24,519	130.8	17,934	130.0	3,381.9
1992	17,239	121.6	30,596	125.9	22,294	125.1	2,890.3
1993	20,856	121.0	36,832	120.4	27,173	121.9	2,653.0
1994	25,507	122.3	45,336	123.1	33,309	124.9	2,461.4
1995 ^{c)}	29,203	116.6	52,250	115.5	38,900	116.8	2,585.3
1996	35,305	120.9	62,309	119.3	46,837	120.4	2,402.4
1997	42,419	120.2	77,202	123.9	57,270	122.3	2,350.9
1998	49,423	116.5	92,711	120.1	67,764	118.3	2,519.6
1999 ^{d)}	55,218	115.1	106,962	116.2	77,187	116.1	2,691.4
<i>Of which:</i>							
Agriculture, fishing	45,548	113.1	83,534	112.2	53,521	113.5	144.9
Mining	80,365	112.3	158,687	115.8	95,762	113.4	8.8
Manufacturing	60,846	115.1	135,325	116.0	76,335	115.8	746.9
Food, beverages and tobacco products	56,642	113.2	132,840	116.7	73,476	115.3	128.8
Textiles, clothing and leather products	41,780	115.1	92,152	113.5	47,546	115.3	132.7
Wood, paper and printed products	57,228	111.9	107,879	106.7	71,215	112.1	52.8
Chemical industry	80,714	114.1	175,898	119.8	111,702	116.9	83.2
Non-ferrous mineral product	68,214	116.6	142,252	119.5	82,812	118.5	31.8
Metallurgy, meal working	63,803	111.8	119,053	108.5	74,788	110.9	74.2
Machine industry	69,645	117.2	142,895	118.3	84,497	117.4	216.8
Other manufacturing industry	43,335	112.7	90,448	115.7	50,898	112.7	26.6
Electricity, gas, heat, water supply	83,874	115.7	147,268	114.2	104,543	116.1	78.3
Industry, total	62,970	114.8	137,256	115.6	79,252	115.5	833.9
Construction	45,069	112.2	97,216	112.8	56,753	112.7	111.3
Trade, repair, maintenance of vehicles, household articles	42,105	113.7	102,890	111.4	66,913	112.4	272.4
Accommodation service, catering	37,460	114.3	88,168	118.5	50,067	115.4	74.9
Transportation, storage, post and telecommunication	66,555	114.4	120,085	118.6	88,238	117.4	226.6
Financial activity and supplementary services	78,210	106.6	167,244	116.5	165,327	116.5	57.1
Real estate transactions, leasing	46,486	112.0	127,674	115.5	89,399	116.3	136.9
State administration, social security	59,498	125.6	117,573	118.0	92,821	121.0	303.8
Education	40,759	115.8	79,344	118.8	72,869	119.2	245.0
Health and welfare care	42,211	115.7	66,801	113.7	59,105	114.8	207.6
Other communal, social and personal services	49,170	112.7	94,482	113.6	71,199	113.3	77.0
Companies total	56,120	113.8	123,665	114.4	77,413	114.8	1,865.8
Central government	50,929	121.6	89,159	117.6	76,760	119.2	799.7

Source: CSO

^{a)} Calculated from comparable data.^{b)} To 1991 the average earnings data are calculated from data of the domain of companies.^{c)} From 1995 data of companies with more than 10 employees.^{d)} From 1999, the data cover companies with more than 5 employees and units of public administration irrespective of staff levels.

AVERAGE NET EARNINGS OF FULL TIME EMPLOYEES

Year, sector	Net average earnings of manuals	Previous year = 100 ^{a)}	Net average earnings of non-manuals	Previous year = 100 ^{a)}	Total	Previous year = 100 ^{a)}
1988	–	–	–	–	6,985	–
1989	–	–	–	–	8,165	116.9
1990	–	–	–	–	10,108	121.7
1991 ^{b)}	10,862	124.3	16,617	125.3	12,948	125.5
1992	12,854	118.4	20,168	122.3	15,628	121.3
1993	15,031	116.9	23,544	116.6	18,397	117.7
1994	18,778	124.9	29,704	126.2	23,049	127.3
1995 ^{c)}	21,015	113.9	32,603	110.2	25,891	112.6
1996	24,833	118.2	38,207	116.3	30,544	117.4
1997	30,152	120.8	48,873	126.9	38,145	124.1
1998	35,330	117.2	58,536	119.8	45,162	118.4
1999 ^{d)}	38,206	110.8	66,165	113.7	50,076	112.7
<i>Of which:</i>						
Agriculture, fishing	33,122	108.9	53,750	110.0	37,452	109.7
Mining	52,156	110.2	93,277	114.0	60,240	111.3
Manufacturing	41,342	111.3	80,712	113.6	49,530	112.4
Food, beverages and tobacco products	39,175	109.7	79,089	114.0	47,993	111.8
Textiles, clothing and leather products	30,649	109.4	57,795	110.6	33,756	110.0
Wood, paper and printed products	38,700	107.5	66,162	105.4	46,284	108.6
Chemical industry	51,854	111.0	102,600	117.9	68,375	114.2
Non-ferrous mineral product	45,409	112.8	84,616	117.1	53,139	114.8
Metallurgy, meal working	43,078	109.1	71,856	106.7	48,800	108.5
Machine industry	46,494	113.7	84,735	115.7	54,248	114.2
Other manufacturing industry	31,441	107.8	56,989	112.7	35,542	108.4
Electricity, gas, heat, water supply	53,994	112.8	86,526	111.8	64,601	113.2
Industry, total	42,510	111.2	81,663	113.3	51,092	112.2
Construction	32,029	107.0	60,285	110.3	38,360	108.3
Trade, repair, maintenance of vehicles, household articles	30,439	107.8	63,916	109.5	44,102	109.0
Accommodation service, catering	27,762	107.5	55,935	114.9	34,766	109.8
Transportation, storage, post and telecommunication	44,883	111.4	72,779	115.7	56,183	114.2
Financial activity and supplementary services	50,360	105.0	98,117	114.6	97,089	114.5
Real estate transactions, leasing	33,269	107.6	77,457	113.6	56,625	113.3
State administration, social security	40,815	119.2	71,509	115.5	58,427	117.3
Education	30,469	110.4	52,115	115.6	48,482	115.6
Health and welfare care	31,349	110.5	45,491	111.6	41,066	111.8
Other communal, social and personal services	35,127	109.1	59,248	110.9	46,854	110.3
Companies total	38,651	109.8	74,741	112.2	50,028	111.5
Central government	36,085	115.4	57,035	114.9	50,240	115.5

Source: CSO

^{a)} Calculated from comparable data.

^{b)} To 1991 the average earnings data are calculated from data of the domain of companies.

^{c)} From 1995, data of companies with more than 10 employees.

^{d)} From 1999, the data cover companies with more than 5 employees and units of public administration irrespective of staff levels.

V. DATA ON INCOME AND NET FINANCIAL SAVINGS OF HOUSEHOLDS

NET HOUSEHOLD WEALTH

Ft billions

Period	Financial assets								
	Cash	Forint deposits and bank securities				Non-bank securities			
		Individuals	Unincorporated enterprises	Total	Foreign exchange deposits	Investment fund certificates	Government bonds ^{a)}	Treasury bills	Shares
December 1990	165.8	340.6	36.6	377.2	71.5	-	-	-	44.9
December 1991	189.0	447.3	57.5	504.8	129.5	1.7	0.1	8.7	56.7
December 1992	246.1	620.7	61.8	682.5	152.6	5.2	1.0	17.7	64.7
1 January 1993 ^{c)}	246.1	620.7	28.2	648.9	152.6	5.2	1.0	17.7	64.7
December 1993	294.7	692.5	33.2	725.7	204.7	14.0	2.1	26.8	73.4
December 1994	333.2	798.3	32.0	830.3	293.7	32.0	28.0	67.3	107.9
1 January 1995 ^{d)}	333.2	798.3	32.0	830.3	293.7	32.0	28.0	69.3	107.9
December 1995	380.4	933.5	33.9	967.4	439.0	40.4	53.1	96.8	119.6
December 1996	425.1	1,232.4	48.6	1,281.0	484.8	77.5	79.0	139.1	135.0
1 January 1997 ^{e)}	439.3	1,362.6	61.6	1,424.2	475.5	98.2	104.0	171.5	97.3
December 1997	496.9	1,645.6	82.6	1,728.2	524.5	206.2	59.7	348.3	283.0
January 1998	478.5	1,659.8	82.3	1,742.1	532.1	190.1	61.6	375.2	271.1
February	485.8	1,681.9	84.1	1,766.0	535.1	202.6	65.1	392.8	310.5
March	489.4	1,686.3	83.0	1,769.3	538.9	220.5	62.6	414.0	358.5
April	519.3	1,701.4	82.4	1,783.8	541.9	232.6	66.6	422.1	362.1
May	520.5	1,710.8	88.9	1,799.7	553.2	238.2	65.5	437.5	323.5
June	521.4	1,736.0	89.6	1,825.6	563.0	246.5	70.4	443.7	373.9
July	549.1	1,782.3	90.9	1,873.2	561.0	271.8	69.3	449.8	406.7
August	573.7	1,809.3	99.3	1,908.6	589.5	269.6	71.3	447.4	273.5
September	569.2	1,833.9	96.2	1,930.1	603.7	243.7	73.9	454.1	252.1
October	579.3	1,863.9	96.6	1,960.5	608.6	252.4	75.3	464.5	286.1
November	583.7	1,886.2	103.3	1,989.5	612.1	257.1	74.8	493.5	302.1
December ^{f)}	589.9	1,967.9	96.0	2,063.9	619.9	268.1	78.2	490.8	302.0
January 1999	576.8	1,995.9	99.0	2,094.9	613.1	278.4	76.7	497.1	313.4
February	582.6	2,037.4	103.4	2,140.8	627.1	285.6	77.0	513.0	267.7
March	589.9	2,058.7	100.1	2,158.8	634.9	291.0	78.6	515.6	256.1
April	603.5	2,087.8	101.4	2,189.2	624.9	296.6	79.0	522.4	267.9
May	614.5	2,100.0	109.0	2,209.0	627.4	312.4	78.0	532.2	266.5
June	628.6	2,132.8	109.0	2,241.8	629.5	316.0	80.0	542.9	241.6
July	644.8	2,161.4	110.0	2,271.4	630.3	324.0	79.9	555.6	253.9
August	658.1	2,169.4	119.3	2,288.7	636.7	329.9	83.6	576.2	248.7
September	658.2	2,184.9	114.9	2,299.8	646.2	324.0	87.3	594.8	224.6
October	668.7	2,187.8	120.1	2,307.9	646.6	324.9	88.2	602.9	224.0
November	676.5	2,203.7	127.2	2,330.9	652.7	342.2	92.3	617.8	222.5
December	751.3	2,241.0	119.7	2,360.7	653.7	365.0	97.7	632.6	239.8

Annex V/1 (continued)

NET HOUSEHOLD WEALTH

Ft billions

Financial assets				Financial assets, total, (I)	Liabilities		Total liabilities (II)	Net financial wealth of households (I-II)	Period
Non-bank securities		Life insurance reserves	Claims on pension funds ^{b)}		Individuals	Unincorporated enterprises			
Corporate bonds	Total								
1.1	46.0	30.5		691.0	368.9	44.0	412.9	278.1	December 1990
1.8	69.0	37.3		929.6	241.0	61.4	302.4	627.2	December 1991
2.9	91.5	41.3		1214.0	252.3	76.2	328.5	885.5	December 1992
2.9	91.5	41.3		1,180.4	252.3	68.6	320.9	859.5	1 January 1993 ^{c)}
0.4	116.7	52.1		1,393.9	282.8	85.7	368.5	1,025.4	December 1993
2.6	237.8	58.6		1,753.6	317.3	89.2	406.5	1,347.1	December 1994
2.6	239.8	58.6	0.2	1,755.8	317.3	94.4	411.7	1,344.1	1 January 1995 ^{d)}
10.6	320.5	79.0	5.7	2,192.0	298.7	70.8	369.5	1,822.5	December 1995
20.7	451.3	112.5	21.1	2,775.8	277.6	62.9	340.5	2,435.3	December 1996
20.7	491.7	112.5	21.1	2,964.3	278.3	64.6	342.9	2,621.4	1 January 1997 ^{e)}
20.1	917.3	154.0	54.8	3,875.7	324.0	71.2	395.2	3,480.5	December 1997
16.9	914.9	154.2	56.3	3,878.1	313.4	70.8	384.2	3,493.9	January 1998
15.2	986.2	155.9	59.5	3,988.5	311.8	72.8	384.6	3,603.9	February
12.6	1,068.2	158.7	63.8	4,088.3	318.9	76.0	394.9	3,693.4	March
11.7	1,095.1	160.0	69.4	4,169.5	308.1	78.4	386.5	3,783.0	April
11.5	1,076.2	163.8	76.0	4,189.4	310.8	80.8	391.6	3,797.8	May
11.4	1,145.9	171.0	83.4	4,310.3	318.1	83.0	401.1	3,909.2	June
11.3	1,208.9	173.7	88.0	4,453.9	320.1	86.0	406.1	4,047.8	July
11.9	1,073.7	174.6	93.0	4,413.1	326.3	86.6	412.9	4,000.2	August
13.2	1,037.0	182.1	98.3	4,420.4	330.2	88.2	418.4	4,002.0	September
15.5	1,093.8	186.8	104.8	4,533.8	331.9	89.5	421.4	4,112.4	October
16.8	1,144.3	188.5	115.7	4,633.8	341.6	89.8	431.4	4,202.4	November
14.6	1,153.7	209.6	131.2	4,768.2	320.5	93.8	414.3	4,353.9	December ^{f)}
12.4	1,178.0	212.3	138.2	4,813.3	323.2	92.6	415.8	4,397.5	January 1999
10.6	1,153.9	215.0	146.0	4,865.4	324.3	92.8	417.1	4,448.3	February
8.8	1,150.1	225.9	154.6	4,914.2	330.7	94.5	425.2	4,489.0	March
7.7	1,173.6	229.2	162.4	4,982.8	337.2	96.4	433.6	4,549.2	April
6.9	1,196.0	234.3	169.0	5,050.2	348.5	99.4	447.9	4,602.3	May
5.4	1,185.9	242.7	176.2	5,104.7	358.8	103.4	462.2	4,642.5	June
4.7	1,218.1	247.8	186.0	5,198.4	368.0	104.0	472.0	4,726.4	July
4.6	1,243.0	251.8	196.3	5,274.6	381.6	103.8	485.4	4,789.2	August
4.6	1,235.3	257.0	207.5	5,304.0	391.5	105.6	497.1	4,806.9	September
4.6	1,244.6	264.0	218.5	5,350.3	400.1	108.2	508.3	4,842.0	October
4.6	1,279.4	270.0	230.0	5,439.5	409.4	110.3	519.7	4,919.8	November
4.6	1,339.7	291.2	248.5	5,645.1	415.6	111.5	527.1	5,118.0	December

Source: NBH

a) Including NBH bills.

b) Includes mutual funds and savings associations and, from 1998, private pension funds.

c) From 1 January 1993, due to changes to classification, small enterprise deposit is not fully comparable with past data.

d) From 1 January 1995

– small business loan figures do not include overdue interest and charges;

– non-bank securities data include household assets in discount treasury bills issued in the primary market;

– data include the stock of savings in Voluntary Mutual Insurance Companies.

e) Due to changes to the statistical system, data on financial assets are not comparable with those for the period prior to 1 January 1997:

– forex deposits have been expressed in the domestic currency at market rates (until 31 December 1996, the central rate within the intervention band was the Bank's official exchange rate).

– the distribution ratios applied to decompose holdings by institutional sector have been revised.

– securities and deposits have been recorded on accruals basis and valued at market prices.

– shares include personal holdings of exchange traded shares, but exclude off-exchange shares and securities other than shares.

NET FINANCING POSITION OF HOUSEHOLDS^{a)}

Ft billions

Period	Financial assets								
	Currency	Forint deposit and bank securities				Non-bank securities			
		Individuals	Unincorporated enterprises	Total	Foreign exchange deposits	Investment fund certificates	Government bonds	Treasury bills	Shares
1991	23.2	106.7	20.9	127.6	58.0				22.3
1992	57.1	173.4	4.3	177.7	23.1	3.5	0.9	9.0	8.0
1993	48.6	71.8	5.0	76.8	52.1	8.8	1.1	9.1	8.7
1994	38.5	105.8	-1.2	104.6	89.0	18.0	25.9	40.5	34.5
1995	47.2	135.2	1.9	137.1	145.3	8.4	25.1	27.5	11.7
1996	44.7	298.9	14.7	313.6	45.8	37.1	25.9	42.3	15.4
1997	57.6	266.8	21.0	287.8	-18.5	105.4	-43.2	177.2	68.3
January 1998	-18.4	30.4	-0.3	30.1	2.6	-14.4	1.9	26.5	0.4
February	7.3	22.1	1.8	23.9	-1.0	10.1	3.6	17.8	-0.1
March	3.6	4.4	-1.1	3.3	-2.2	15.5	-2.7	21.0	9.8
April	29.9	15.1	-0.6	14.5	0.0	11.4	4.0	7.4	11.7
May	1.2	9.4	6.5	15.9	-1.7	12.5	-1.3	15.3	10.0
June	0.9	25.2	0.7	25.9	4.7	4.1	4.9	6.4	9.5
July	27.7	46.3	1.3	47.6	1.3	22.5	-1.0	5.8	4.8
August	24.6	27.0	8.4	35.4	5.2	15.4	2.4	-2.5	3.5
September	-4.5	24.6	-3.1	21.5	8.2	-17.8	3.5	8.2	1.6
October	10.1	30.0	0.4	30.4	7.0	1.4	0.5	10.0	-14.3
November	4.4	22.3	6.7	29.0	3.3	2.0	-0.5	29.1	-18.0
December	6.2	55.7	-7.3	48.4	6.5	7.2	3.2	-3.4	-13.0
January 1999	-13.1	54.0	3.0	57.0	2.5	9.6	-1.6	5.2	-6.4
February	5.8	41.5	4.4	45.9	-3.7	9.2	0.4	16.0	-6.5
March	7.3	21.3	-3.3	18.0	-4.0	6.5	1.6	3.3	-6.4
April	13.6	29.1	1.3	30.4	-2.1	4.4	1.0	7.1	-15.0
May	11.0	12.2	7.6	19.8	0.8	15.3	-1.5	9.7	-16.3
June	14.1	32.8	0.0	32.8	-0.4	4.1	2.6	10.9	-16.1
July	16.2	28.6	1.0	29.6	-0.2	7.2	-0.1	12.5	-16.0
August	13.3	8.0	9.3	17.3	2.5	5.5	3.5	20.7	-5.0
September	0.1	15.5	-4.4	11.1	1.6	-3.9	4.0	18.6	1.4
October	10.5	2.9	5.2	8.1	0.5	0.0	0.7	7.9	-1.5
November	7.8	15.9	7.1	23.0	-0.2	14.0	3.6	14.8	-11.6
December	74.8	-13.7	-7.5	-21.2	-1.5	17.6	3.9	13.4	-14.9

Annex V/2 (continued)

NET FINANCING POSITION OF HOUSEHOLDS^{a)}

Ft billions

Financial assets				Financial assets, total (I)	Liabilities		Liabilities, total (II)	Net financing position (I-II)	Period
Non-bank securities		Life insurance reserves	Claims on pension funds		Individuals	Unincorporated enterprises			
Corporate bonds	Total								
0.7	23.0	6.8		238.6	-127.9	17.4	-110.5	349.1	1991
1.1	22.5	4.0		284.4	11.3	14.8	26.1	258.3	1992
-2.5	25.2	10.8		213.5	30.5	17.1	47.6	165.9	1993
2.2	121.1	6.5		359.7	34.5	3.5	38.0	321.7	1994
8.0	80.7	20.4	5.5	436.2	-18.6	-23.6	-42.2	478.4	1995
10.1	130.8	33.5	15.4	583.8	-21.1	-7.9	-29.0	612.8	1996
-0.6	307.1	41.5	31.9	707.4	45.7	11.0	56.7	650.7	1997
-3.2	11.2	0.2	1.5	27.2	-10.6	-0.4	-11.0	38.2	January 1998
-1.7	29.7	1.7	3.2	64.8	-1.6	2.2	0.6	64.2	February
-2.6	41.0	2.8	4.3	52.8	7.1	3.4	10.5	42.3	March
-0.9	33.6	1.3	5.6	84.9	-10.8	2.4	-8.4	93.3	April
-0.2	36.3	3.8	6.6	62.1	2.7	2.5	5.2	56.9	May
-0.1	24.8	7.2	7.4	70.9	7.3	2.3	9.6	61.3	June
-0.1	32.0	2.7	4.6	115.9	2.0	3.1	5.1	110.8	July
0.6	19.4	0.9	5.0	90.5	6.2	0.6	6.8	83.7	August
1.3	-3.2	7.5	5.3	34.8	3.9	1.7	5.6	29.2	September
2.3	-0.1	4.7	6.5	58.6	1.7	1.3	3.0	55.6	October
1.3	13.9	1.7	10.9	63.2	9.7	0.6	10.3	52.9	November
-2.2	-8.2	21.1	15.5	89.5	-21.1	4.9	-16.2	105.7	December
-2.2	4.6	2.7	7.0	60.7	2.7	-1.7	1.0	59.7	January 1999
-1.8	17.3	2.7	7.8	75.8	1.1	0.2	1.3	74.5	February
-1.8	3.2	10.9	8.6	44.0	6.4	1.9	8.3	35.7	March
-1.1	-3.6	3.3	7.8	49.4	6.5	1.9	8.4	41.0	April
-0.8	6.4	5.1	6.6	49.7	11.3	3.0	14.3	35.4	May
-1.5	0.0	8.4	7.2	62.1	10.3	4.1	14.4	47.7	June
-0.7	2.9	5.1	9.8	63.4	9.2	0.7	9.9	53.5	July
-0.1	24.6	4.0	10.3	72.0	13.6	-0.1	13.5	58.5	August
0.0	20.1	5.2	11.2	49.3	9.9	2.1	12.0	37.3	September
0.0	7.1	7.0	11.0	44.2	8.6	2.8	11.4	32.8	October
0.0	20.8	6.0	11.5	68.9	9.3	2.1	11.4	57.5	November
0.0	20.0	21.2	18.5	111.8	6.2	1.5	7.7	104.1	December

Source: NBH

^{a)} From 1997, net savings do not include revaluations of foreign currency deposits and securities holdings arising from exchange rate and price changes, other volume changes due to disposals and write-offs of small business debt and other volume changes caused by extraordinary adjustments. Changes in net wealth were recorded as savings in the period preceding 1997. From 1 January 1997, the data are not fully comparable with those for earlier periods (see footnote 'e' of Annex V/1).

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS

Ft billions

	Net financial worth		Changes in net financial worth (3=2-1) and (3=4+5+6+7)	Due to				Total revaluations (nominal holding gain) (8=5+6)	Of which:	
	Beginning of period (1)	End of period (2)		Net lending		Revaluations (6)	Other changes in volume (7)		Neutral holding gain (9)	Real holding gain (10=8-9)
				Operational net lending (4)	Compensation for inflation included in interests (5)					
January 1997	2,621.4	2,709.5	88.1	26.5	23.3	38.2	0.1	61.5	38.7	22.8
February	2,709.5	2,759.6	50.1	19.9	24.0	6.2	0.0	30.2	39.6	-9.4
March	2,759.6	2,790.0	30.4	3.3	24.4	2.4	0.3	26.8	40.1	-13.3
April	2,790.0	2,862.7	72.7	28.5	24.5	19.7	0.0	44.2	40.4	3.8
May	2,862.7	2,893.8	31.1	-0.5	23.7	7.6	0.3	31.3	39.4	-8.1
June	2,893.8	2,982.1	88.3	36.6	25.3	26.0	0.4	51.3	42.2	9.1
July	2,982.1	3,072.9	90.8	30.3	25.2	35.2	0.1	60.4	42.2	18.2
August	3,072.9	3,132.2	59.3	47.1	25.6	-13.6	0.2	12.0	43.1	-31.1
September	3,132.2	3,191.7	59.5	16.8	26.0	16.3	0.4	42.3	43.8	-1.5
October	3,191.7	3,261.7	70.0	48.0	26.1	-5.7	1.6	20.4	44.3	-23.9
November	3,261.7	3,310.9	49.2	30.6	27.2	-8.8	0.2	18.4	46.1	-27.7
December	3,310.9	3,480.5	169.6	59.8	28.5	64.3	17.0	92.8	48.1	44.7
January 1998	3,480.5	3,493.9	13.4	9.4	28.8	-8.6	-16.2	20.2	47.7	-27.5
February	3,493.9	3,603.9	110.0	35.3	28.9	45.6	0.2	74.5	47.0	27.5
March	3,603.9	3,693.4	89.5	13.8	28.5	47.0	0.2	75.5	46.6	28.9
April	3,693.4	3,783.0	89.6	65.2	28.1	-3.7	0.0	24.4	46.5	-22.1
May	3,783.0	3,797.8	14.8	28.7	28.2	-42.2	0.1	-14.0	46.6	-60.6
June	3,797.8	3,909.2	111.4	35.1	26.2	50.0	0.1	76.2	42.9	33.3
July	3,909.2	4,047.8	138.6	84.4	26.4	27.7	0.1	54.1	43.9	10.2
August	4,047.8	4,000.2	-47.6	57.6	26.1	-131.3	0.0	-105.2	42.7	-147.9
September	4,000.2	4,002.0	1.8	4.5	24.7	-27.5	0.1	-2.8	39.4	-42.2
October	4,002.0	4,112.4	110.4	30.9	24.7	54.8	0.0	79.5	39.4	40.1
November	4,112.4	4,202.4	90.0	29.6	23.3	36.8	0.3	60.1	36.9	23.2
December	4,202.4	4,353.9	151.5	83.1	22.6	12.8	33.0	35.4	35.1	0.3
January 1999	4,353.9	4,397.5	43.6	36.8	22.9	10.4	-26.5	33.3	34.5	-1.2
February	4,397.5	4,448.3	50.8	51.9	22.6	-27.6	3.9	-5.0	33.5	-38.5
March	4,448.3	4,489.0	40.7	12.9	22.8	4.8	0.2	27.6	33.2	-5.6
April	4,489.0	4,549.2	60.2	17.9	23.1	18.8	0.4	41.9	34.0	7.9
May	4,549.2	4,602.3	53.1	13.1	22.3	16.2	1.5	38.5	32.7	5.8
June	4,602.3	4,642.5	40.2	24.9	22.8	-11.8	4.3	11.0	33.8	-22.8
July	4,642.5	4,726.4	83.9	28.6	24.9	30.3	0.1	55.2	37.5	17.7
August	4,726.4	4,789.2	62.8	31.3	27.2	4.2	0.1	31.4	41.3	-9.9
September	4,789.2	4,806.9	17.7	9.9	27.4	-19.9	0.3	7.5	41.6	-34.1
October	4,806.9	4,842.0	35.1	6.0	26.8	2.1	0.2	28.9	40.3	-11.4
November	4,842.0	4,919.8	77.8	30.2	27.3	20.3	0.0	47.6	41.2	6.4
December	4,919.8	5,118.0	198.2	74.7	29.4	42.8	51.3	72.2	44.5	27.7

Source: NBH

VI. DATA ON GENERAL GOVERNMENT

CENTRAL GOVERNMENT BALANCE

Revenues	Actual 1998	Target for 1999	Actual 1999	Actual as a per cent of the target
	Ft millions			
PAYMENTS BY ECONOMIC ORGANIZATIONS				
Profit tax (excluding financial institutions)	199,232	260,400	248,763	95.53
Royalty	11,554	16,380	11,544	70.48
Customs duties and import levies	130,582	134,300	140,174	104.37
Gambling tax	14,437	21,400	17,382	81.22
Other payments	21,350	35,000	26,280	75.09
Total	377,155	467,480	444,143	95.01
CONSUMPTION TAXES				
Turnover tax (VAT)	796,921	969,400	941,770	97.15
Consumption tax	320,602	460,900	463,725	100.61
Total	1,117,523	1,430,300	1,405,495	98.27
PAYMENTS BY HOUSEHOLDS				
Personal income taxes	477,534	539,905	578,109	107.08
Tax payments	3,255	4,500	4,215	93.66
Fees	39,663	42,423	43,702	103.01
Total	520,453	586,828	626,026	106.68
PAYMENTS BY CENTRAL BUDGETARY INSTITUTIONS	380,307	418,453	568,837	135.94
PAYMENTS BY LOCAL GOVERNMENTS	4,150	4,000	4,624	115.61
WITHDRAWAL FROM SEPARATED GOVERNMENT FUNDS	18,910	9,990	9,990	100.00
REVENUES FROM INTERNATIONAL FINANCIAL RELATIONS	45,234	–	–	–
PAYMENTS RELATED TO STATE PROPERTY	10,036	32,455	40,387	124.44
PROFIT TAX AND DIVIDENDS FROM FINANCIAL INSTITUTIONS	18,060	34,500	13,692	39.69
PAYMENTS BY THE NBH	41,933	44,000	30,628	69.61
OTHER REVENUES	14,086	11,450	12,334	107.72
REVENUES RELATED TO DEBT SERVICING	78,351	95,624	88,237	92.28
TOTAL REVENUES	2,626,198	3,135,080	3,244,394	103.49
TOTAL EXPENDITURES	2,998,066	3,517,253	3,581,545	101.83
BALANCE (NET OF PRIVATISATION REVENUES)	-371,868	-382,173	-337,151	88.22
PRIVATIZATION REVENUE	11,970	8,000	8,000	100.00

CENTRAL GOVERNMENT BALANCE^{a)}

Expenditures	Actual 1997	1998 target	1998 actual	Actual as a per cent of the target
	Ft millions			
SUBSIDIES TO ECONOMIC ORGANIZATIONS				
Targeted and normative grants	59,910	58,860	61,525	104.53
Miscellaneous grants	8,081	10,884	13,063	120.03
Export subsidies	44,404	48,854	59,808	122.42
Farm subsidies	30,223	47,426	38,050	80.23
Total	142,618	166,024	172,446	103.87
CONSUMER PRICE SUBSIDIES	66,579	73,600	74,841	101.69
INVESTMENT EXPENDITURES				
Coverage for central investment projects	92,545	115,116	89,047	77.35
Home-building subsidies	42,951	60,000	41,136	68.56
Total	135,496	175,116	130,183	74.34
BENEFITS PAID OUT THROUGH SOCIAL SECURITY				
Family and maternity allowances	162,978	191,800	185,625	96.78
Other benefits and compensations	111,191	218,511	192,769	88.22
Total	274,169	410,311	378,394	92.22
TRANSFERS TO CENTRAL GOVERNMENT INSTITUTIONS	1,119,745	1,357,324	1,467,193	108.09
TRANSFERS TO LOCAL GOVERNMENTS	405,693	440,487	449,058	101.95
TRANSFERS TO EXTRABUDGETARY FUNDS	–	70	228	–
EXPENDITURES ON INTERNATIONAL FINANCIAL TRANSACTIONS	2,150	2,566	1,925	75.02
DEBT SERVICE, INTEREST PAYMENTS	780,431	784,143	850,329	108.44
	–	–	10,110	
OTHER EXPENDITURES	9,437	9,201	10,679	116.07
GENERAL RESERVES	–	54,757	–	–
EXTRAORDINARY EXPENDITURES	53,898	22,563	20,730	91.88
GUARANTEES	7,850	21,092	15,429	73.15
TOTAL EXPENDITURES	2,998,066	3,517,253	3,581,545	101.83

Source: HT

^{a)} Expenditures for 1998 do not include government bonds worth Ft 132 billion transferred to Postabank, and government bonds worth Ft 50 billion to ÁPV Rt. However, they include the transfer of Ft 37.7 billion to MFB Rt.

HEALTH SECURITY FUND CASHFLOW^{a)}

Ft millions

	Target for 1999	Q1	Q2	Q3	Q4	January– December 1999	Percentage of the target for 1999
REVENUES							
1. Revenues serving health security provisions	636,535	134,693	164,633	149,331	176,045	624,703	98.1
Total contributions	601,305	126,141	156,478	141,193	167,425	591,237	98.3
Contributions paid by budget authorities	30,290	7,573	7,573	7,573	7,573	30,290	100.0
Other revenues concerning health security activities	4,940	979	583	565	1,048	3,176	64.3
2. Collection of arrears	3,700	552	896	1,072	1,989	4,509	121.9
3. Revenues related to asset management	14,600	1,381	412	26	22,567	24,385	167.0
Sale of fixed assets	14,600	6	0	0	97	103	0.7
Sale of financial assets	0	1,181	196	19	22,428	23,824	..
Yields	0	194	215	7	43	458	..
Interests	0	176	-176	0	0	0	..
Dividends	0	–	373	0	1	374	..
Others	0	17	19	7	41	85	..
I. TOTAL REVENUES OF HEALTH SECURITY FUNDS	654,835	136,626	165,941	150,429	200,601	653,598	99.8
EXPENDITURES							
4. Health security provision expenditures	671,935	160,477	176,007	166,287	178,012	680,783	101.3
Disability and accident compensation	117,684	29,244	29,062	28,897	28,746	115,949	98.5
Financial assistance	56,932	6,793	18,270	12,411	21,316	58,790	103.3
Maternity and confinement aid	7,802	805	2,366	1,695	2,902	7,768	99.6
Sick pay	46,800	5,638	15,486	10,319	17,762	49,205	105.1
Sick aid	1,300	116	182	164	413	876	67.4
Damages	1,030	233	236	233	239	941	91.4
Provisions in kind	495,531	124,311	128,174	124,658	126,927	504,069	101.7
Health care and preventive provisions	345,165	81,467	85,326	83,681	88,403	338,877	98.2
Balneological services	2,000	514	565	587	632	2,298	114.9
Breast milk supply	215	39	36	34	37	147	68.5
Pharmaceutical subsidies	122,932	36,618	36,674	34,937	31,232	139,461	113.4
Subsidies on medical equipment	22,582	5,156	4,846	4,749	5,838	20,589	91.2
Travel allowance	2,637	517	727	670	783	2,697	102.3
Other expenditures	1,788	128	501	322	1,024	1,975	110.5
5. Operating expenses	18,999	3,989	3,689	3,294	8,697	19,670	103.5
6. Expenditures related to asset management	555	212	306	176	551	1,245	224.2
Renovation	0	–	–	–	–	–	..
Other expenditures of operation	15	15	146	18	397	576	3,837.1
Execution of Postabank guarantee	540	196	161	157	155	669	123.9
II. TOTAL EXPENDITURES OF HEALTH SECURITY FUNDS	691,489	164,677	180,003	169,757	187,261	701,698	101.5
III. BALANCE (I–II)	–36,654	–28,051	–14,061	–19,328	13,340	–48,100	..

Source: Social security authorities

^{a)} Preliminary data.

PENSION SECURITY FUND CASHFLOW^{a)}

Ft millions

	Target for 1999	Q1	Q2	Q3	Q4	January– December 1999	Percentage of the target for 1999
I. REVENUES							
1. Revenues serving pension security provisions	872,625	199,963	209,547	209,988	244,994	864,492	99.1
Total revenues and contributions	770,634	193,418	188,903	193,595	206,402	782,318	101.5
Contributions of central budget	99,791	6,148	17,460	16,160	37,017	76,785	76.9
Other revenues concerning pension security activities	2,200	398	3,184	232	1,575	5,390	245.0
2. Collection of arrears	2,940	330	434	767	1,116	2,647	90.0
3. Revenues related to asset management	39,100	5,986	747	29	42,593	49,355	126.2
Sale of fixed assets	0	10	0	0	321	331	..
Sale of financial assets	0	5,055	1	16	42,215	47,286	..
Yields	0	921	746	13	57	1,738	..
Interests	0	919	13	10	7	949	..
Dividends	0	–	730	0	0	731	..
Others	0	2	3	2	50	58	..
I. TOTAL REVENUES OF PENSION SECURITY FUNDS	914,665	206,279	210,728	210,784	288,704	916,495	100.2
II. EXPENDITURES							
4. Pension security provision expenditures	896,621	224,204	223,973	223,503	225,926	897,606	100.1
Pensions	893,102	223,527	223,288	222,857	224,456	894,128	100.1
Old age pensions	615,687	154,272	154,037	154,312	155,131	617,752	100.3
Disability and accident pension	149,086	36,771	36,786	36,929	37,196	147,681	99.1
Compensations paid for relatives	127,379	32,401	32,378	31,523	32,042	128,345	100.8
Lump sum payments	950	83	87	93	87	350	36.8
Other expenditures	3,519	677	686	646	1,469	3,478	98.8
5. Operating expenses	16,414	2,649	3,156	3,291	6,995	16,091	98.0
6. Expenditures related to asset management	1,630	495	411	404	729	2,040	125.1
Renovation	0	–	–	–	–	–	..
Other expenditures of operation	260	202	118	-297	343	366	140.9
Execution of Postabank guarantee	1,370	293	293	701	386	1,673	122.1
II. TOTAL EXPENDITURES OF PENSION SECURITY FUNDS	914,665	227,347	227,540	227,198	233,650	915,736	100.1
III. BALANCE (I–II)	0	–21,069	–16,812	–16,414	55,053	759	..

Source: Social security authorities

^{a)} Preliminary data.

CHANGES IN ASSETS AND LIABILITIES OF GENERAL GOVERNMENT^{a)}

Ft billions

Assets and liabilities of general government sub-sectors	Stock		Flows: Jan.–Dec.	Of which		
	31 Dec. 1998	31 Dec. 1999		Transactions	Revaluations	Other changes in volume
Central government including extra budgetary funds and APV Rt.						
Financial assets	484.3	611.9	71.2	126.3	31.1	-86.2
Deposits with NBH	193.7	367.8	174.1	158.2	15.9	0.0
Deposits with commercial banks	5.0	4.5	-0.5	-0.5	0.0	0.0
Domestic credits, excluding general government ^{b)}	73.3	64.8	-8.5	-8.5	0.0	0.0
Loans to social security	101.8	56.7	-45.1	40.4	0.0	-85.5
Foreign loans	110.5	118.1	7.5	-7.0	15.2	-0.7
Shares and other equities	..	..	-56.4	-56.4	..	..
Liabilities	6504.1	7206.1	702.0	615.4	85.5	1.1
Deposits of social security	0.0	0.0	0.0	0.0	0.0	0.0
Loans from NBH including accrued interest	2635.1	1959.0	-676.1	-719.2	43.1	0.0
Loans from banks	21.5	70.3	48.8	48.8	0.0	0.0
Foreign loans	295.9	386.8	90.9	63.6	26.2	1.1
Government securities including accrued interest ^{c)}	3487.0	4711.4	1224.4	1209.5	14.9	0.0
Other liabilities	64.6	78.6	13.9	12.6	1.3	0.0
Net financial assets	-6019.8	-6594.3	-630.8	-489.2	-54.4	-87.3
Social security funds						
Financial assets	38.2	3.7	-105.6	-105.6	0.0	0.0
Deposits with the Treasury	0.0	0.0	0.0	0.0	0.0	0.0
Government securities	7.5	0.0	-7.5	-7.5	0.0	0.0
Advances	30.7	3.7	-27.0	-27.0	0.0	0.0
Shares and other equities	..	..	-71.1	-71.1	..	..
Liabilities	113.9	56.7	-57.2	28.3	0.0	-85.5
Loans from central government ^{d)}	113.9	56.7	-57.2	28.3	0.0	-85.5
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Net financial assets	-75.7	-53.0	-48.5	-134.0	0.0	85.5
Local government authorities						
Financial assets	399.9	428.4	9.8	9.8	0.0	0.0
Deposits with commercial banks	123.6	126.3	2.7	2.7	0.0	0.0
Domestic credits	29.3	32.7	3.4	3.4	0.0	0.0
Government securities including accrued interest	84.0	114.0	30.0	30.0	0.0	0.0
NBH bills	16.3	0.0	-16.3	-16.3	0.0	0.0
Investment fund certificates	4.3	6.6	2.3	2.3	0.0	0.0
Shares and other assets	..	..	-18.7	-18.7	..	..
Other assets	142.4	148.8	6.4	6.4	0.0	0.0
Liabilities	131.8	138.6	6.7	6.7	0.0	0.0
Foreign owned bonds	19.6	19.6	0.0	0.0	0.0	0.0
Domestic owned bonds	2.6	0.0	-2.6	-2.6	0.0	0.0
Loans from commercial banks	44.4	50.0	5.6	5.6	0.0	0.0
Foreign loans	9.5	7.7	-1.8	-1.8	0.0	0.0
Other domestic loans	5.5	12.7	7.2	7.2	0.0	0.0
Advances from social security	13.4	0.0	-13.4	-13.4	0.0	0.0
Other liabilities	36.8	48.6	11.8	11.8	0.0	0.0
Net financial assets	268.1	289.8	3.0	3.0	0.0	0.0
Total general government^{e)}						
Financial assets	703.5	860.5	10.8	-19.6	31.1	-0.7
Liabilities	6530.9	7217.9	687.0	600.5	85.5	1.1
Net financial assets	-5827.4	-6357.5	-676.3	-620.1	-54.4	-1.8

Source: NBH

^{a)} Where changes in the volume of assets and liabilities are not available the sign (..) is used. Only transactions data for financial instruments are at hand, with no data available for outstanding stocks, revaluations and other changes in volume. Changes in the volume of these instruments, therefore, are recorded as transactions.

^{b)} The stock of domestic credits reflects the total outstanding at 31 December 1996, adjusted by transactions as released by the Treasury in its reports on the implementation of state budgets.

^{c)} Excluding the transfer of Ft 50 billion government securities to ÁPV Rt in December 1998.

^{d)} Includes credits from the Treasury account and the central budget.

^{e)} This shows, on a consolidated basis, general government assets and liabilities as well as their changes. Consequently, it does not include mutual assets and liabilities, as well as changes in assets and liabilities, of the sub-sectors of general government.

SALES AND AVERAGE ANNUAL YIELD OF DISCOUNT TREASURY BILLS

Period	Sales of				Total	Average annual yield of			
	1-month	3-month	6-month	12-month		1-month	3-month	6-month	12-month
	Discount treasury bills ^{a)}					Discount treasury bills ^{b)}			
	Ft billions					Per cent			
March 1995	11.0	75.0	12.5	3.0	101.5	30.0	33.0	34.4	34.0
June	4.5	59.0	28.0	5.5	97.0	28.9	32.8	34.7	35.5
September	3.2	45.0	27.0	23.0	98.2	29.3	31.8	33.6	34.1
December	4.0	34.0	24.0	24.0	86.0	29.4	30.1	30.5	31.3
March 1996	4.0	24.0	30.0	56.5	114.5	25.2	25.0	25.2	25.8
June	4.0	24.0	44.2	44.2	116.4	23.9	24.0	24.5	25.0
September	4.0	20.0	31.0	21.0	76.0	22.5	22.5	22.6	22.5
December	4.0	18.5	27.0	31.0	80.5	21.8	21.7	21.6	21.6
March 1997	4.0	20.0	34.0	36.5	94.5	21.3	20.7	20.6	20.2
June	4.0	20.0	37.0	44.5	105.5	21.0	20.5	20.6	20.3
September	4.0	20.0	33.0	41.0	98.0	19.9	19.4	19.7	19.7
December	5.0	25.0	49.5	57.0	136.5	19.6	19.2	19.2	19.1
January 1998	4.0	20.0	39.0	44.0	107.0	19.8	19.3	19.2	19.2
February	4.0	20.0	41.0	45.0	110.0	19.5	19.2	19.2	19.2
March	4.0	20.0	41.0	45.0	110.0	19.2	19.0	19.0	19.1
April	4.0	25.0	39.0	43.0	111.0	18.7	18.4	18.2	18.2
May	4.0	20.0	39.0	43.0	106.0	18.3	17.5	17.5	17.5
June	4.0	20.0	37.0	43.0	104.0	18.0	17.4	17.5	17.6
July	2.0	25.0	43.5	64.5	135.0	17.7	17.0	17.0	17.0
August	–	20.0	32.5	40.5	93.0	–	16.2	16.1	16.1
September	–	20.4	27.0	33.0	80.4	–	16.6	17.0	17.1
October	–	20.0	25.0	34.5	79.5	–	18.7	18.8	18.8
November	–	20.0	37.5	47.5	105.0	–	17.4	17.5	17.7
December	–	25.0	68.5	96.0	189.5	–	17.2	17.0	17.0
January 1999	–	20.0	54.0	67.0	141.0	–	15.78	15.48	15.24
February	–	20.0	56.0	66.0	142.0	–	15.31	15.03	14.88
March	–	23.4	54.5	61.0	138.9	–	15.34	15.23	15.24
April	–	20.0	53.5	54.5	128.0	–	15.39	15.49	15.38
May	–	20.0	52.0	54.5	126.5	–	14.87	14.79	14.79
June	–	25.0	76.0	78.5	179.5	–	14.88	14.86	14.85
July	–	31.0	42.5	48.0	121.5	–	14.61	14.57	14.58
August	–	32.0	39.0	39.0	110.0	–	14.38	14.30	14.28
September	–	48.0	33.0	42.5	123.5	–	14.08	14.06	14.14
October	–	40.0	31.0	39.0	110.0	–	14.01	14.08	14.13
November	–	32.0	39.0	42.5	113.5	–	13.95	13.98	13.95
December	–	52.0	49.5	62.0	163.5	–	13.41	13.29	13.20

Source: GDMC

^{a)} At face value.^{b)} Weighted by the amounts of offers accepted at auctions.

STOCK OF DISCOUNT TREASURY BILLS

Ft billions

End of period	Stock of				Total
	1-month	3-month	6-month	12-month	
	Discount treasury bills, face value				
March 1995	11.0	190.6	75.4	62.9	339.9
June	4.5	179.0	110.0	44.4	337.9
September	3.2	166.5	168.5	75.4	413.6
December	4.0	108.0	168.0	130.4	410.4
March 1996	4.0	81.0	168.8	236.2	490.0
June	4.0	78.0	216.9	350.9	649.8
September	5.0	75.0	249.0	430.3	759.3
December	4.0	63.5	213.9	445.3	726.7
March 1997	4.0	65.0	188.5	452.5	710.0
June	4.0	65.0	219.0	458.0	746.0
September	4.0	65.0	235.0	494.0	798.0
December	4.0	65.0	218.5	521.0	808.5
January 1998	4.0	65.0	222.5	529.0	820.5
February	4.0	65.0	228.5	539.5	837.0
March	4.0	65.0	236.5	548.5	854.0
April	4.0	65.0	242.5	551.0	862.5
May	4.0	65.0	265.0	572.5	906.5
June	4.0	65.0	250.5	549.5	869.0
July	1.0	65.0	248.5	548.0	862.5
August	-	65.0	240.0	544.5	849.5
September	-	60.4	226.0	536.5	822.9
October	-	60.4	212.0	520.5	792.9
November	-	60.4	212.5	530.0	802.9
December	-	65.0	225.5	569.0	859.5
January 1999	-	65.0	244.5	592.0	901.5
February	-	65.0	268.0	613.0	946.0
March	-	63.4	295.5	629.0	987.9
April	-	63.4	324.0	640.5	1,027.9
May	-	63.4	338.5	652.0	1,053.9
June	-	65.0	346.0	665.5	1,076.5
July	-	76.0	334.5	670.5	1,081.0
August	-	88.0	317.5	669.0	1,074.5
September	-	111.0	296.0	678.5	1,085.5
October	-	120.0	275.5	693.0	1,088.5
November	-	122.0	258.5	688.0	1,068.5
December	-	126.0	232.0	654.0	1,012.0

Source: GDMC

**PUBLICLY ISSUED GOVERNMENT BONDS AND GOVERNMENT GUARANTEED BONDS
OUTSTANDING IN 1999**

Denomination	Issue date	Stock exchange listing date ^{a)}	Issued amount, Ft billions ^{b)}	Maturity in years	Date of interest payment	Annual interest rate, per cent
1999/B I-II	5. 1, 1996	12. 2, 1996	16.0	3	5.7, 5.1	average yield on 6 months + 0.5 ^{d)}
1999/C I-V	6. 5, 1996	27. 9, 1996	40.8	3	6.11, 6.5	23
1999/D I-III	31. 10, 1996	30. 12, 1996	38.8	3	24.4, 24.10	21
1999/E -II	9. 1, 1997	10. 1, 1997	24.4	2	12.7, 12.1	19.5
1999/F I-VI	3. 3, 1997	5. 6, 1997	71.2	2	12.10, 12.4	16.5
1999/G I-VI	23. 6, 1997	9. 10, 1997	79.7	2	24.1, 24.7	16.5
1999/H I-IV	16. 10, 1997	12. 12, 1997	46.8	2	24.4, 24.10	16.5
2000/B	15. 6, 1995	20. 7, 1996	3.0	5	15.12, 15.6	DWIX+2.25
2000/C	25. 8, 1995	3. 10, 1995	3.0	5	25.8	CPI + 3.5 ^{e)}
2000/D I-III	20. 1, 1997	27. 2, 1997	37.8	3	12.8, 12.2	18.5
2000/E I-V	18. 4, 1997	3. 7, 1997	40.2	3	12.11, 12.5	16
2000/F I-III	7. 7, 1997	28. 8, 1997	51.1	3	24.2, 24.8	16
2000/G	4. 9, 1997	11.12,1998	81.0	3	24.5, 24.11	16
2000/H	8. 1, 1998	19. 3, 1998	74.7	2	12.7, 12.1	16
2000/I	2. 4, 1998	29. 5, 1998	79.7	2	12.10, 12.4	16
2000/J	25.6, 1998	18.9, 1998	94.9	2	24.1, 24.7	15.5
2001/C I-VII	3. 2, 1997	24. 6, 1997	33.1	5	12.6, 12.12	15
2001/D	22. 1, 1998	20. 3, 1998	49.0	3	12.8., 12.2	16
2001/E	4. 16, 1998	10. 7, 1998	72.2	3	12.11, 12.5	15.5
2001/F	6. 8, 1998	28.12, 1998	83.0	3	24.1, 24.7	15
2001/G	4.2, 1999	4.2, 1999	38.8	2	12.7, 12.1	13.5
	4.2, 1999	4.3, 1999	30.0	2	12.7, 12.1	13.5
	4.2, 1999	1.4, 1999	30.0	2	12.7, 12.1	13.5
	4.2, 1999	29.4, 1999	30.0	2	12.7, 12.1	13.5
2001/H ^{d)}	27.5, 1999	14.6, 1999	31.3	2	12.12, 12.6	13.5
	27.5, 1999	14.6, 1999	24.0	2	12.12, 12.6	13.5
	27.5, 1999	22.7, 1999	24.0	2	12.12, 12.6	13.5
	27.5, 1999	19.8, 1999	24.0	2	12.12, 12.6	13.5
	27.5, 1999	16.9, 1999	24.0	2	12.12, 12.6	13.5
	27.5, 1999	14.10, 1999	22.5	2	14.5, 14.11	13.5
2001/I ^{d)}	14.10, 1999	10.11, 1999	22.5	2	14.5, 14.11	13.5
	14.10, 1999	11.10, 1999	21.6	2	14.5, 14.11	13.5
	14.10, 1999	9.12, 1999	21.6	2	14.5, 14.11	13.5
2002/F I-IX	4. 7, 1997	12.12, 1997	32.9	5	24.12, 24.6	14
2002/G	8. 1, 1998	26. 6, 1998	39.1	5	12.6, 12.12	14
2002/H	21.1, 1999	21.1, 1999	36.3	3	12.10, 12.4	12.5
	21.1, 1999	18.2, 1999	22.2	3	12.10, 12.4	12.5
	21.1, 1999	18.3, 1999	30.0	3	12.10, 12.4	12.5
	21.1, 1999	15.4, 1999	24.0	3	12.10, 12.4	12.5
	21.1, 1999	13.5, 1999	24.0	3	12.10, 12.4	12.5
	21.1, 1999	10.6, 1999	24.0	3	12.10, 12.4	12.5
2002/I ^{d)}	8.7, 1999	8.7, 1999	22.5	3	24.3, 24.9	12.5
	8.7, 1999	5.8, 1999	24.0	3	24.3, 24.9	12.5
	8.7, 1999	2.9, 1999	21.6	3	24.3, 24.9	12.5
	8.7, 1999	30.9, 1999	18.0	3	24.3, 24.9	12.5
	8.7, 1999	28.10, 1999	18.0	3	24.3, 24.9	12.5
	8.7, 1999	25.11, 1999	18.0	3	24.3, 24.9	12.5
	8.7, 1999	23.12, 1999	18.0	3	24.3, 24.9	12.5
2003/F I-VI	17.10, 1996	27. 2, 1997	48.8	7	24.9	CPI+3 ^{d)}

**PUBLICLY ISSUED GOVERNMENT BONDS AND GOVERNMENT GUARANTEED BONDS
OUTSTANDING IN 1999**

Denomination	Issue date	Stock exchange listing date ^{a)}	Issued amount, Ft billions ^{b)}	Maturity in years	Date of interest payment	Annual interest rate, per cent
2003/H	19. 3, 1998	20. 3, 1998	15.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	17. 4, 1998	13.8	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	24. 4, 1998	0.1	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	12. 6, 1998	13.8	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	7. 8, 1998	11.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	30. 10, 1998	7.5	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	27. 11, 1998	9.6	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	28. 12, 1998	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	18. 03, 1999	15.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	13. 5, 1999	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	18.7, 1999	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	2.9, 1999	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	23.12, 1999	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	19. 3, 1998	28.10, 1999	6.0	5	12.9, 12.3	average yield on 6 months ^{h)}
	2003/I	23.7, 1998	11.12, 1998	38.3	5	24.1, 24.7	13
2004/F I–VII	18. 3, 1997	3. 7, 1997	25.8	7	12.3	CPI+3 ^{d)}
2004/G	7. 7, 1997	19. 2, 1998	42.3	7	24.3	CPI+3 ^{d)}
2004/H	4.2, 1999	4.2, 1999	18.8	5	12.11, 12.5	10.5
	4.2, 1999	4.3, 1999	12.0	5	12.11, 12.5	10.5
	4.2, 1999	1.4, 1999	7.2	5	12.11, 12.5	10.5
	4.2, 1999	29.4, 1999	18.0	5	12.11, 12.5	10.5
	4.2, 1999	27.5, 1999	15.0	5	12.11, 12.5	10.5
	4.2, 1999	24.6, 1999	9.6	5	12.11, 12.5	10.5
	4.2, 1999	22.7, 1999	12.0	5	12.11, 12.5	10.5
	4.2, 1999	19.8, 1999	12.0	5	12.11, 12.5	10.5
	4.2, 1999	16.9, 1999	9.6	5	12.11, 12.5	10.5
	4.2, 1999	14.10, 1999	9.6	5	12.11, 12.5	10.5
	4.2, 1999	11.11, 1999	12.0	5	12.11, 12.5	10.5
4.2, 1999	9.12, 1999	12.0	5	12.11, 12.5	10.5	
2005/C	11. 8, 1995	18. 9, 1995	1.2	10	11.8	29.5 in first half, then DWIX + 1.0 ^{e)}
2005/D	14. 5, 1998	15. 5, 1998	6.0	7	12.3	inflation-adjusted + 4 ⁱ⁾
	14. 5, 1998	19.6, 1998	0.2	7	12.3	inflation-adjusted + 4 ⁱ⁾
2009/B	21. 1, 1999	21. 1, 1999	15.6	10	12.8, 12.2	10
	21. 1, 1999	18.2, 1999	12.0	10	12.8, 12.2	10
	21. 1, 1999	15.4, 1999	12.0	10	12.8, 12.2	10
	21. 1, 1999	10.6, 1999	4.8	10	12.8, 12.2	10
	21. 1, 1999	5.8, 1999	6.3	10	12.8, 12.2	10
	21. 1, 1999	30.9, 1999	4.8	10	12.8, 12.2	10
	21. 1, 1999	25.11, 1999	10.0	10	12.8, 12.2	10

Source: GDMC

^{a)} For the series reported together the date of issue is identical with that of the last issue in the series.

^{b)} Including holdings of the Ministry of Finance.

^{c)} Interest rate set based on the previous half.

^{d)} Interest rate set based on the preceding one calendar month.

^{e)} Based on the previous 12 months.

^{f)} (CPI) of the preceding calendar month to the same month of the preceding year.

^{g)} But 23%, if DWIX is between 18%–23%.

^{h)} Interest rate set based on the previous half of three auction.

ⁱ⁾ Indexed bond. The AKK publishes daily increments in principal for each working day of the following month. The increment is calculated from the monthly consumer price indices of two months previously.

^{j)} Dematerialised paper.

PRIVATELY ISSUED GOVERNMENT BONDS AND STATE-GUARANTEED BONDS OUTSTANDING IN 1999

Denomination	Issue date	Issued amount, Ft billions ^{a)}	Maturity in years	Date of interest payment ^{b)}	Annual interest rate, %
1999/A	10. 3, 1994	10.0	5	10. 9, 10. 3	average yield on 1, 3, 6 months +1.75 ^{f)}
2000/A	1. 1, 1993	5.0	8	31. 12	8
2001/A Bc.	15. 12, 1987	9.0	15	31. 12	10
2001/B	21. 12, 1994	10.6 ^{c)}	7	31. 12	9 5/8
2002/A	2. 3, 1992	30.0	10	2. 3, 2. 9	base rate of National Bank of Hungary
2002/B	1. 12, 1992	5.0	10	1. 6, 1. 12	19
2002/C	15. 12, 1992	1.0	10	15. 6, 15. 12	18
2002/D	31. 12, 1992	8.0	10	31. 12	8.4
2002/E	1. 11, 1994	0.5	7.5	25. 3	25, 24, 24, 21, 21, 18, 18, 18
2003/A Ss.	1. 7, 1993	1.0	10	1. 7	16.5
2003/B Ss.	1. 7, 1993	4.0	10	1. 7	21, 17, 14, then ^{d)}
2003/C Ss.	29. 10, 1993	1.0	10	29. 10	23, 23, then at the end of 2nd, 4th, 7th years ^{d)}
2003/D Ss.	22. 12, 1993	2.0	10	22. 12	23, 23, 23, 19, 19, 17, 17, 16, 16, 16
2003/E Ss.	30. 12, 1993	8.0	10	30. 12	average yield on 1, 3, 6 months ^{f)} + at the end of 3rd, 6th, 8th year ^{e)}
2003G	15. 12. 1996	3.0	7	15.12	23, 23, 23 23, 15, 15, 15, but at the end of fourth year ^{e)}
2004/A Hs.	1. 7, 1989	19.1	15	15. 2	interest on the longest-dated T-bill weighted by months
2004/B Ss.	28. 3, 1994	0.5	10	28. 3, 28. 9	average yield on 1, 3, 6 months + 1.75 ^{f)}
2004/C Rv. ^{j)}	29. 5, 1994	30.0	10	29. 11, 29. 5	average yield on 1, 3, 6 months ^{f)}
2004/D Ss.	17. 8, 1994	0.5	10	17. 2, 17. 8	DWIX+1.75
2004/E	26. 10, 1994	0.8	10	26. 10	23
2005/A	29. 12, 1993	1.2	12	20. 3, 20. 6, 20. 9, 20. 12	19
2005/B Rv. ^{j)}	4. 8, 1995	36.0	10	27.12, 95, 4.8, 4. 2	average yield on 1, 3, 6 months ^{f)}
2006/A Rv.	28. 2, 1996	50.0	10	28.2, 97, 28.2	average yield on 1, 3, 6 months ^{f)}
2006/B Rv.	24. 5, 1996	78.0	10	24. 1	average yield on 1, 3, 6 months ^{f)}
2006/C Rv.	24. 05. 1996.	78.0	10	24.0, 97, 24.7	average yield on 3 and 6 months ^{f)}
2006/D	30. 12. 1998.	10.0	8	12.8, 99, 12.2, 12.8	average yield on 6 months ^{f)}
2007/A	31. 12, 1992	20.0	15	31. 12	8.4
2007/B	30. 12. 1998.	24.0	9	12.06, 12.12	average yield on 6 months ^{f)}
2007/C	30. 12. 1998.	10.0	9	12.8, 99, 12.2, 12.8	average yield on 6 months ^{f)}
2008/A	30. 12. 1998.	55.0	10	24.4, 24.10	average yield on 6 months ^{f)}
2008/B	30. 12. 1998.	10.0	10	12.8, 99, 12.2, 12.8	average yield on 6 months ^{f)}
2009/A	30. 12. 1998.	10.0	11	12.8, 99, 12.2, 12.8	average yield on 6 months ^{f)}
2010/A	30. 12. 1998.	10.0	12	12.8, 99, 12.2, 12.8	average yield on 6 months ^{f)}
2012/A	31. 12. 1992	20.3	20	31.12.	8.4
2012/A	31. 12, 1992	20.3	20	31. 12	8.4
2013/A Cc.	20. 3, 1993	150.0	20	20. 3	average yield on 3 months ^{g)}
2013/C Cc.	20. 12, 1993	150.0	20	20. 6, 20. 12	average yield on 3 months ^{g)}
2014/A Cc.	2. 5, 1994	50.0	20	2. 5, 2. 11	average yield on 3 months ^{g)}
2014/B Cc.	20. 12, 1994	35.0	20	20. 6, 20.12	average yield on 3 months ^{g)}
2016/A Gv. ^{h)}	1. 1, 1992	83.2	25	end or 3rd, 6th, 9th, 12th month	i)
2016/B	2. 1, 1996	10.0	20	2.1, 97, 2.1, 2.7	average yield on 3 months ^{f)}
2024/A Rv. ^{j)}	29. 5, 1994	29.1	30	29.5, 9, 29.1, 29.5	average yield on 1, 3, 6 months ^{f)}
2025/A Rv. ^{j)}	4. 8, 1995	36.0	30	27.12, 95, 4.8, 4.2	average yield on 1, 3, 6 months ^{f)}
2026/A Rv.	28. 2, 1996	51.2	30	28. 2, 97, 28. 2	average yield on 3 and 6 months ^{f)}
2026/B Rv.	24. 5, 1996	80.0	30	24. 4	average yield on 3 and 6 months ^{f)}
2026/C Rv. ^{k)}	24. 5, 1996	80.0	30	24.10, 97, 24. 10	average yield on 3 and 6 months ^{f)}

Source: GDMC

a) Including holdings of the Ministry of Finance.

b) At the exchange rate of the issue data.

c) Semi-annual interest.

d) Option to choose between fixed or variable rate.

e) Optional.

f) Based on one calendar month preceding the semi-annual interest date.

g) Based on the six-month period preceding the semi-annual interest date.

h) Set of bonds consisting of 25 series with maturities 1-25 years.

i) Variable, in each quarter the interest rate is equal to the rate (which is valid at the beginning of the current quarter) of the most recent longest dated interest bearing bill, issued.

j) Revaluation bond phased out on 2 January 1997 in connection with the debt swap between the NBH and government.

k) Ft 65.1 billion cancelled on 2 January 1997 in connection with debt swap.

l) Based on the previous three auctions.

Abbreviations:

Rv. = Revaluation bonds

Bc. = Bank consolidation bonds

Cc. = Credit consolidation bonds

Gv. = Government bonds

Hs. = Issued to finance preferential housing loans

Ss. = Issued to cover Social Security deficit

GOVERNMENT BENCHMARKS

End of month	Per cent						
	3 months	6 months	1 year	2 years	3 years	5 years	10 years
February 1997	21.18	20.96	20.70	19.03	17.75	15.81	
March	21.07	21.00	20.58	18.91	17.42	16.09	
April	20.75	20.81	20.57	19.01	17.51	16.07	
May	20.89	20.88	20.66	19.12	17.56	16.00	
June	20.05	19.95	20.09	18.58	17.27	15.50	
July	19.81	19.87	19.98	18.81	17.85	15.82	
August	19.74	19.99	20.02	19.07	18.01	16.01	
September	19.48	19.54	19.58	18.90	18.02	16.54	
October	19.50	19.50	19.51	18.78	18.10	16.92	
November	19.51	19.54	19.54	19.14	18.36	17.19	
December	19.36	19.32	19.20	18.91	18.25	17.29	
January 1998	19.27	19.23	19.22	18.85	18.37	17.55	
February	19.09	19.15	19.15	18.95	18.57	18.03	
March	18.65	18.65	18.70	18.00	17.42	16.41	
April	17.44	17.45	17.46	16.72	16.29	15.59	
May	17.53	17.64	17.73	17.07	16.94	15.90	
June	17.33	17.32	17.32	16.51	16.31	15.37	
July	16.36	16.37	16.33	15.84	15.56	14.35	
August	16.84	16.87	16.87	16.79	16.44	15.45	
September	19.06	19.05	18.96	18.41	18.00	16.95	
October	17.41	17.48	17.46	17.13	16.29	15.45	
November	17.70	17.64	17.63	16.91	16.40	14.83	
December	16.10	15.98	15.88	14.85	14.18	12.88	
January 1999	15.25	15.09	14.96	14.01	12.65	10.94	9.09
February	15.45	15.35	15.32	14.76	12.84	11.74	9.51
March	15.68	15.65	15.61	15.05	14.01	12.27	9.79
April	14.77	14.73	14.69	14.09	13.25	11.37	9.63
May	14.96	14.97	14.97	14.30	13.76	11.77	9.82
June	14.74	14.75	14.77	14.48	14.03	12.49	10.14
July	14.46	14.46	14.46	14.09	13.53	12.33	10.16
August	14.12	14.16	14.22	14.11	13.50	12.63	10.53
September	14.07	14.10	14.17	14.07	13.45	12.77	10.84
October	13.96	13.97	13.96	13.38	13.15	12.12	10.25
November	13.78	13.78	13.74	12.85	11.92	10.89	9.55
December	12.44	12.37	12.33	11.53	10.75	9.82	8.86

Source: GDMC

VII. EXTERNAL PAYMENTS POSITION

Annex VII/1

BALANCE OF PAYMENTS DATA IN CONVERTIBLE CURRENCIES, 1990-95

EUR millions

	1990	1991	1992	1993	1994	1995
Exports	5,017	7,464	7,761	6,931	6,410	9,894
Imports	4,717	7,322	7,800	9,717	9,464	11,787
Trade balance	299	142	-39	-2,786	-3,054	-1,893
Services and income						
Freight and shipment, net	-132	-64	-90	-91	-148	-144
Government expenditures, net	13	50	61	-15	-10	-10
Services, net	236	53	77	-87	-50	149
Travel, receipts	645	821	936	1,017	1,194	2,038
expenditures	374	358	493	635	777	819
net	271	463	443	382	417	1,219
Direct investment income, net	-19	-26	-34	-48	-98	-149
Investment income						
receipts	182	241	323	390	557	588
expenditures	1,300	1,317	1,263	1,358	1,641	1,822
net	-1,118	-1,076	-939	-969	-1,084	-1,235
Labour and property income, net	13	-16	7	-6	-36	-39
Unrequited transfers, net	569	699	658	629	762	156
Other payments, net	-24	0	91	31	2	19
CURRENT ACCOUNT BALANCE	109	223	235	-2,959	-3,300	-1,927
Capital account						
Medium and long-term capital	155	2,422	351	4,839	1,903	4,348
Assets, net ^{a)}	-62	-46	-121	203	32	91
Liabilities, net	-27	1,281	-670	2,606	948	816
Inflow	1,997	3,233	1,723	5,465	4,593	5,484
Outflow	2,024	1,952	2,393	2,859	3,644	4,668
Direct investment	0					
In Hungary, net	244	1,186	1,142	2,039	966	3,474
Abroad, net ^{a)}	..	..	..	-9	-43	-33
BASIC BALANCE	264	2,645	586	1,880	-1,397	2,421
Short-term capital	-744	-482	13	408	807	1,094
Assets ^{a)}	-253	94	-108	-148	174	-6
Liabilities	-490	-575	122	556	633	1,100
OVERALL BALANCE	-479	2,163	600	2,288	-591	3,515
Changes of reserves ^{a)}	479	-2,163	-600	-2,288	591	-3,515

Source: NBH

^{a)} - = increase.

BALANCE OF PAYMENTS OF HUNGARY, 1996

EUR millions

	1996
1. Goods, net	-2,110
1.1 Exports	11,327
1.2 Imports	13,437
2. Services, net	1,917
2.1 Construction services, net	-31
2.2 Merchanting and other trade-related services, net	151
2.3 Transportation services, net	81
2.4 Travel, receipts	2,571
expenditures	764
net	1,806
2.5 Business services, net	-6
2.6 Technical and cultural services, net	-85
2.7 Government services, net	0
3. Income, net	-1,161
3.1 Compensation of employees, net	-16
3.2 Direct investment income, net	-206
O/w.:	
3.2.1 Income on equity, receipts	17
expenditures	207
net	-191
3.2.2 Income on debt, receipts	2
expenditures	17
net	-15
3.3 Portfolio investment income, receipts	477
expenditures	968
net	-491
3.4 Other investment income, receipts	436
expenditures	883
net	-448
4. Current transfers, net	-44
5. Other current payments, net	58
I. CURRENT ACCOUNT (1 + 2 + 3 + 4 + 5)	-1,339

Annex VII/2 (continued)

BALANCE OF PAYMENTS OF HUNGARY, 1996

EUR millions

	1996
II. Capital account (6+7+8)	124
6. Capital transfers of government sector, net	18
7. Capital transfers of other sectors, net	107
8. Acquisition/disposal of non-produced, non-financial assets, net	-1
III. Financial account (9+10+11)^{a)}	-734
9. Direct investment, net	1,817
9.1 Abroad, net	2
9.1.1 Equity capital, net	2
9.1.2 Other capital, net (intercompany loans)	0
9.1.2.1 Assets, net	0
9.1.2.2 Liabilities, net	0
9.2 In Hungary, net	1,815
9.2.1 Equity capital, net	1,426
9.2.2 Other capital, net (intercompany loans)	388
9.2.2.1 Assets, net	0
9.2.2.2 Liabilities, net	388
10. Portfolio investment, net	-320
10.1 Assets, net	-14
10.1.1 Equity securities, net	-12
10.1.2 Bonds and notes, net	0
10.1.3 Money market instruments, net	-16
10.1.4 Financial derivatives, net	14
10.2 Liabilities, net	-306
10.2.1 Equity securities, net	286
10.2.2 Bonds and notes, net	-544
10.2.3 Money market instruments, net	-47
10.2.4 Financial derivatives, net	-1
11. Other investment, net	-2,231
11.1 Assets, net	-1,012
11.1.1 Short-term, net	-1,263
11.1.2 Long-term, net	251
11.2 Liabilities, net	-1,219
11.2.1 Short-term, net	336
11.2.2 Long-term, net	-1,555
IV. Net errors and omissions	778
V. Overall balance (I+II+III+IV)	-1,171
VI. International reserves	1,171

Source: NBH

^{a)} Excluding international reserves.

BALANCE OF PAYMENTS OF HUNGARY, 1997–98

EUR millions

	1997	1998
1. Goods, net	-1,733	-2,080
1.1 Exports	17,388	18,447
1.2 Imports	19,121	20,527
2. Services total, credit	5,091	5,274
debit	3,065	3,683
net	2,026	1,591
2.1 Construction services, credit	53	94
debit	59	108
net	-6	-14
2.2 Merchanting and other trade-related services, credit	242	498
debit	114	399
net	128	100
2.3 Transportation services, credit	445	578
debit	377	402
net	68	176
2.4 Travel, credit	3,070	3,134
debit	820	993
net	2,251	2,141
2.5 Business services, credit	283	165
debit	303	312
net	-21	-146
2.6 Technical and cultural services, credit	954	768
debit	1,337	1,417
net	-383	-648
2.7 Government services, credit	43	35
debit	54	53
net	-11	-17
3. Income, credit	1,219	988
debit	2,482	2,650
net	-1,263	-1,662
3.1 Compensation of employees, credit	34	40
debit	35	18
net	-1	21
3.2 Direct investment income, credit	21	22
debit	406	843
net	-386	-821
3.2.1 Income on equity capital, credit	14	17
debit	391	809
net	-377	-792
3.2.2 Income on debt, credit	7	4
debit	15	34
net	-8	-30
3.3 Portfolio investment income, credit	639	635
debit	1,159	1,250
net	-520	-616
3.3.1 Income on equity securities, credit	13	6
debit	54	60
net	-41	-54
3.3.2 Bonds and notes, credit	25	10
debit	841	742
net	-816	-731
3.3.3 Money market instruments and financial derivatives, credit	601	618
debit	264	449
net	338	169
3.4 Other investment income, credit	525	292
debit	882	538
net	-356	-246
4. Current transfers, net	122	130
4.1 Government sector, net	-4	-40
4.2 Other sectors, net	126	170
I. Current account (1 + 2 + 3 + 4)	-848	-2,020

Annex VII/3 (continued)

BALANCE OF PAYMENTS OF HUNGARY, 1997-98

EUR millions

	1997	1998
II. Capital account (5 + 6 + 7)	104	170
5. Capital transfers of government sector, net	10	46
6. Capital transfers of other sectors, net	114	141
7. Acquisition/disposal of non-produced, non-financial assets, net	-20	-17
III. Financial account (8 + 9 + 10)^{a)}	602	2,582
8. Direct investment, net	1,533	1,387
8.1 Abroad, net	-389	-428
8.1.1 Equity capital, net	-258	-412
8.1.2 Other capital, net (intercompany loans)	-131	-16
8.1.2.1 Assets, net	-132	-16
8.1.2.2 Liabilities, net	1	0
8.2 In Hungary, net	1,922	1,815
8.2.1 Equity capital, net	1,603	1,260
8.2.2 Other capital, net (intercompany loans)	319	555
8.2.2.1 Assets, net	-7	69
8.2.2.2 Liabilities, net	327	486
9. Portfolio investment, net	-919	1,786
9.1 Assets, net	-108	72
9.1.1 Equity securities, net	-29	-41
9.1.2 Bonds and notes, net	-46	-74
9.1.3 Money market instruments, net	-44	30
9.1.4 Financial derivatives, net	11	156
9.2 Liabilities, net	-811	1,713
9.2.1 Equity securities, net	896	494
9.2.2 Bonds and notes, net	-1,662	1,303
9.2.3 Money market instruments, net	-42	-51
9.2.4 Financial derivatives, net	-4	-32
10. Other investments, net	-13	-590
10.1 Assets	-527	-451
10.1.1 Short-term, net	-422	-399
10.1.2 Long-term, net	-105	-52
10.2 Liabilities, net	514	-139
10.2.1 Short-term, net	829	258
10.2.2 Long-term, net	-315	-397
IV. Net errors and omissions	16	28
V. Overall balance (I + II + III + IV)	-127	760
VI. International reserves	127	-760

Source: NBH

^{a)} Excluding international reserves.

BALANCE OF PAYMENTS OF HUNGARY, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan-Dec.
1. Goods, net	-83	-74	-310	-143	-75	-285	-161	-110	-200	-203	-192	-220	-2,056
1.1 Exports	1,563	1,461	1,620	1,605	1,641	1,540	1,713	1,661	1,760	1,801	1,951	2,201	20,518
1.2 Imports	1,646	1,535	1,930	1,748	1,716	1,825	1,874	1,771	1,960	2,004	2,144	2,421	22,574
2. Services total, credit	319	321	432	390	402	480	513	559	501	480	461	455	5,314
debit	314	298	371	325	286	371	368	291	322	310	358	386	4,000
net	5	24	62	65	116	109	146	267	179	170	103	68	1,314
2.1 Construction services, credit	6	6	6	7	5	7	5	5	5	4	6	5	67
debit	9	19	20	27	14	13	21	17	6	9	11	8	173
net	-3	-12	-15	-20	-9	-6	-16	-12	-1	-5	-4	-4	-106
2.2 Merchating and other trade-related services, credit	50	52	51	34	27	29	30	22	56	44	60	46	501
debit	39	49	38	34	25	24	26	27	31	37	39	50	418
net	11	4	13	0	2	5	3	-5	25	7	21	-4	82
2.3 Transportation services, credit	32	42	34	40	36	44	52	48	53	51	48	57	537
debit	29	32	34	35	27	36	38	37	37	35	40	42	423
net	3	10	-1	6	9	8	14	11	16	16	8	15	114
2.4 Travel, credit	165	149	269	216	271	318	347	412	307	283	236	222	3,197
debit	82	66	113	84	84	131	119	90	98	79	93	79	1,119
net	83	83	156	132	187	187	228	322	209	204	143	143	2,078
2.5 Business services, credit	13	10	10	9	10	11	8	11	10	17	14	17	141
debit	25	22	31	28	18	28	27	18	20	20	20	29	286
net	-11	-12	-21	-18	-8	-17	-19	-7	-10	-4	-6	-12	-145
2.6 Technical and cultural services, credit	51	59	61	81	52	69	66	56	65	77	91	102	830
debit	124	105	127	117	113	133	129	97	124	124	148	168	1,507
net	-73	-46	-66	-36	-61	-65	-63	-41	-59	-47	-56	-66	-677
2.7 Government services, credit	2	2	2	2	2	2	5	3	4	4	5	6	40
debit	6	5	8	2	6	6	7	4	6	6	7	10	73
net	-5	-3	-6	1	-4	-3	-2	-1	-2	-1	-2	-3	-32
3. Income, credit	106	52	67	39	41	45	45	70	72	66	56	66	724
debit	180	76	178	152	146	278	193	124	163	117	156	518	2,280
net	-74	-24	-111	-113	-106	-233	-148	-54	-91	-51	-100	-451	-1,556
3.1 Compensation of employees, credit	2	3	3	2	2	3	3	2	3	2	3	3	31
debit	2	2	3	2	2	2	3	2	2	2	3	3	27
net	0	1	0	0	0	2	0	0	1	0	0	1	4
3.2 Direct investment income, credit	1	0	0	1	1	1	1	1	2	2	1	3	14
debit	-13	10	4	48	87	107	83	21	16	14	61	386	823
net	14	-9	-4	-47	-86	-105	-82	-20	-14	-12	-60	-383	-809
3.2.1 Income on equity capital, credit	0	0	0	1	1	1	1	1	2	2	1	3	12
debit	-15	9	3	47	85	102	82	18	15	13	60	381	799
net	15	-9	-3	-46	-84	-100	-81	-17	-13	-11	-58	-379	-787
3.2.2 Income on debt, credit	1	0	0	0	0	0	0	0	0	0	0	0	2
debit	2	1	1	1	2	5	1	3	1	1	1	5	24
net	-1	0	-1	-1	-2	-5	-1	-3	-1	-1	-1	-5	-22
3.3 Portfolio investment income, credit	70	27	43	17	17	14	20	44	44	42	26	26	388
debit	134	41	104	73	37	116	81	67	80	75	60	51	919
net	-64	-14	-61	-56	-20	-102	-61	-23	-36	-34	-34	-25	-530
3.3.1 Income on equity securities, credit	0	0	0	0	0	0	2	0	1	0	0	0	5
debit	2	1	0	0	11	49	3	3	0	1	0	4	74
net	-1	0	0	0	-11	-49	-1	-3	1	-1	0	-4	-69
3.3.2 Bonds and notes, credit	0	2	3	2	2	2	6	39	41	37	23	23	180
debit	127	40	104	68	26	67	77	64	80	74	59	47	832
net	-127	-39	-101	-66	-24	-65	-71	-25	-38	-37	-36	-24	-652
3.3.3 Money market instruments and financial derivatives, credit	69	25	40	15	15	12	12	5	2	4	3	2	204
debit	5	0	0	5	0	0	1	0	0	0	0	0	13
net	64	25	40	10	15	11	11	5	2	4	2	2	191
3.4 Other investment income, credit	33	22	21	19	20	27	21	23	23	20	27	35	291
debit	57	23	67	29	20	53	26	34	65	26	33	78	511
net	-24	-1	-46	-10	0	-27	-4	-11	-42	-6	-7	-44	-220
4. Current transfers, net	1	17	30	25	10	39	32	42	29	33	33	36	328
4.1 Government sector, net	-3	-9	4	-1	0	-5	2	4	-1	3	0	-2	-8
4.2 Other sectors, net	4	26	26	26	10	44	30	38	30	31	34	38	336
I. Current account (1 + 2 + 3 + 4)	-151	-57	-330	-166	-55	-369	-131	145	-83	-51	-156	-566	-1,970

Annex VII/4 (continued)

BALANCE OF PAYMENTS OF HUNGARY, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.- Dec.
II. Capital account (5 + 6 + 7)	17	15	-45	-59	14	-76	32	19	44	14	42	13	31
5. Capital transfers of government sector, net	7	0	2	-4	3	21	14	3	13	5	22	9	94
6. Capital transfers of other sectors, net	12	11	-45	-54	10	-96	22	15	28	11	15	14	-57
7. Acquisition/disposal of non-produced, non-financial assets, net	-2	4	-1	-1	1	-1	-3	0	3	-2	5	-10	-6
III. Financial account (8 + 9 + 10)^{a)}	56	596	30	153	181	1,202	236	-124	475	37	880	693	4,417
8. Direct investment, net	171	54	44	-15	170	123	217	43	86	95	98	526	1,612
8.1 Abroad, net	-6	-7	-15	-6	-38	-35	-15	-14	-11	-13	-13	-64	-237
8.1.1 Equity capital, net	-3	-5	-15	-5	-37	-31	-15	-14	-8	-10	-13	-79	-235
8.1.2 Other capital, net (intercompany loans)	-3	-2	-1	-1	-1	-4	0	0	-3	-3	0	15	-2
8.1.2.1 Assets, net	-3	-2	-1	-1	-1	-4	0	0	-3	-3	0	15	-2
8.1.2.2 Liabilities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
8.2 In Hungary, net	176	61	59	-9	207	157	232	58	97	108	111	590	1,849
8.2.1 Equity capital, net	270	68	89	100	127	119	63	113	103	71	147	296	1,567
8.2.2 Other capital, net (intercompany loans)	-94	-7	-30	-109	81	38	169	-55	-5	37	-36	294	282
8.2.2.1 Assets, net	-86	-30	-27	-45	-46	6	54	-74	-45	51	-20	238	-24
8.2.2.2 Liabilities, net	-8	23	-3	-64	126	32	115	19	40	-14	-16	56	306
9. Portfolio investment, net	72	575	-551	575	313	768	-128	-197	-243	-70	528	210	1,851
9.1 Assets, net	384	22	270	-13	-180	-49	63	32	94	7	-1	64	694
9.1.1 Equity securities, net	0	-2	-2	-6	6	-1	-1	-1	8	1	-3	16	15
9.1.2 Bonds and notes, net	-10	-7	-1	11	-24	0	-24	-22	13	1	-6	-2	-71
9.1.3 Money market instruments, net	-2	-2	3	-21	2	-3	1	1	0	0	-3	8	-15
9.1.4 Financial derivatives, net	396	33	269	2	-165	-45	88	55	73	5	11	42	764
9.2 Liabilities, net	-312	553	-821	588	493	818	-191	-229	-337	-78	530	145	1,157
9.2.1 Equity securities, net	-3	153	19	119	194	327	167	-2	-75	-19	158	87	1,126
9.2.2 Bonds and notes, net	58	482	-587	494	149	465	-299	-157	-241	-36	396	117	841
9.2.3 Money market instruments, net	0	0	0	-1	0	0	0	0	0	0	0	0	-1
9.2.4 Financial derivatives, net	-368	-82	-254	-24	150	26	-59	-71	-21	-23	-24	-59	-809
10. Other investments, net	-186	-32	538	-407	-302	312	147	30	632	13	254	-43	955
10.1 Assets	-66	108	-48	25	-438	-88	272	-167	109	-372	-81	-353	-1,098
10.1.1 Short-term, net	-24	134	-33	-19	-230	-105	271	-157	156	-369	91	-241	-526
10.1.2 Long-term, net	-42	-26	-14	44	-208	17	1	-9	-46	-3	-172	-112	-571
10.2 Liabilities, net	-120	-140	585	-432	136	399	-125	197	523	385	334	310	2,052
10.2.1 Short-term, net	-242	-109	550	-422	-112	227	-254	16	247	294	50	260	505
10.2.2 Long-term, net	121	-31	35	-9	248	172	129	180	276	91	284	50	1,547
IV. Net errors and omissions	-102	-50	-90	-23	-16	-109	94	18	-20	33	69	-41	-237
V. Overall balance (I +II + III + IV)	-179	504	-435	-95	123	649	231	58	416	34	836	99	2,241
VI. International reserves	179	-504	435	95	-123	-649	-231	-58	-416	-34	-836	-99	-2,241

Source: NBH

^{a)} Excluding international reserves.

**INCOME ON PORTFOLIO AND OTHER INVESTMENT, SECTORAL
BREAKDOWN, 1997-98**

EUR millions

	1997	1998
I. Government and NBH (A + B)		
1. Portfolio and other investment income, credit	741	726
debit	1,505	1,377
net	-764	-651
1.1 Portfolio investment income, credit	598	610
debit	1,074	1,153
net	-476	-544
1.1.1 Income on equity securities, credit	0	0
debit	0	0
net	0	0
1.1.2 Bonds and notes, credit	4	0
debit	819	724
net	-815	-724
1.1.3 Money market instruments and financial derivatives, credit	594	609
debit	254	429
net	339	180
1.2 Other investment income, credit	143	116
debit	431	224
net	-288	-107
A. Government		
1. Portfolio and other investment income, credit	5	33
debit	113	209
net	-108	-175
1.1 Portfolio investment income, credit	3	0
debit	34	131
net	-32	-131
1.1.1 Income on equity securities, credit	0	0
debit	0	0
net	0	0
1.1.2 Bonds and notes, credit	1	0
debit	34	131
net	-33	-131
1.1.3 Money market instruments and financial derivatives, credit	1	0
debit	0	0
net	1	0
1.2 Other investment income, credit	3	33
debit	79	77
net	-77	-44
B. National Bank of Hungary		
1. Portfolio and other investment income, credit	736	693
debit	1,391	1,168
net	-656	-475
1.1 Portfolio investment income, credit	595	609
debit	1,039	1,022
net	-444	-413
1.1.1 Income on equity securities, credit	0	0
debit	0	0
net	0	0
1.1.2 Bonds and notes, credit	3	0
debit	785	593
net	-782	-593
1.1.3 Money market instruments and financial derivatives, credit	592	609
debit	254	429
net	338	181
1.2 Other investment income, credit	140	84
debit	352	146
net	-212	-63

Annex VII/5 (continued)

**INCOME ON PORTFOLIO AND OTHER INVESTMENT, SECTORAL
BREAKDOWN, 1997-98**

EUR millions

	1997	1998
II. Private sector (C + D)		
1. Portfolio and other investment income, credit	424	200
debit	536	411
net	-113	-211
1.1 Portfolio investment income, credit	41	25
debit	86	97
net	-45	-72
1.1.1 Income on equity securities, credit	13	6
debit	54	60
net	-41	-54
1.1.2 Bonds and notes, credit	20	10
debit	22	17
net	-2	-7
1.1.3 Money market instruments and financial derivatives, credit	8	9
debit	9	20
net	-2	-11
1.2 Other investment income, credit	383	175
debit	451	314
net	-68	-139
C. Credit institutions		
1. Portfolio and other investment income, credit	360	171
debit	413	256
net	-54	-85
1.1 Portfolio investment income, credit	20	14
debit	50	52
net	-30	-38
1.1.1 Income on equity securities, credit	4	1
debit	30	24
net	-26	-23
1.1.2 Bonds and notes, credit	9	9
debit	12	13
net	-2	-4
1.1.3 Money market instruments and financial derivatives, credit	7	4
debit	8	15
net	-2	-11
1.2 Other investment income, credit	340	157
debit	363	204
net	-23	-47
D. Enterprises and other sectors		
1. Portfolio and other investment income, credit	64	29
debit	123	156
net	-59	-127
1.1 Portfolio investment income, credit	21	11
debit	36	45
net	-14	-34
1.1.1 Income on equity securities, credit	9	5
debit	24	36
net	-15	-31
1.1.2 Bonds and notes, credit	11	1
debit	10	4
net	1	-3
1.1.3 Money market instruments and financial derivatives, credit	1	5
debit	1	5
net	0	0
1.2 Other investment income, credit	43	18
debit	87	110
net	-45	-92

Source: NBH

INCOME ON PORTFOLIO AND OTHER INVESTMENT, SECTORAL BREAKDOWN, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.– Dec.
I. Government and NBH (A + B)													
1. Portfolio and other investment income, credit	84	29	45	20	20	16	21	44	43	44	29	36	430
debit	156	40	122	72	29	83	85	74	98	79	65	58	961
net	-72	-11	-77	-52	-10	-67	-63	-30	-55	-35	-36	-22	-531
1.1 Portfolio investment income, credit	69	24	39	15	15	12	17	39	38	39	23	21	352
debit	127	40	103	68	25	67	77	54	80	74	59	44	818
net	-58	-16	-64	-54	-10	-55	-60	-15	-41	-35	-36	-23	-466
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	2	0	0	0	0	0	2
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	0	0	0	0	0	0	2	0	0	0	0	0	2
1.1.2 Bonds and notes, credit	0	0	0	0	0	1	4	35	37	35	21	19	152
debit	127	40	103	68	25	67	77	54	80	74	59	44	818
net	-127	-40	-103	-68	-25	-66	-72	-20	-43	-39	-38	-25	-666
1.1.3 Money market instruments and financial derivatives, credit	69	24	39	15	15	11	11	5	2	4	2	2	199
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	69	24	39	15	15	11	11	5	2	4	2	2	199
1.2 Other investment income, credit	14	5	6	5	5	4	4	5	4	5	5	15	78
debit	28	0	19	4	4	16	8	20	18	4	6	14	143
net	-14	5	-13	1	0	-12	-3	-15	-14	1	-1	0	-65
A. Government													
1. Portfolio and other investment income, credit	2	0	0	0	0	0	0	0	0	0	0	11	13
debit	44	3	8	9	5	19	40	29	8	41	17	31	254
net	-42	-3	-8	-9	-5	-19	-40	-29	-8	-41	-17	-20	-241
1.1 Portfolio investment income, credit	0	0	0	0	0	0	0	0	0	0	0	0	1
debit	39	3	0	6	5	7	33	9	0	39	16	21	178
net	-39	-3	0	-6	-5	-7	-33	-9	0	-39	-16	-21	-177
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	0	0	0	0	0	0	0
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes, credit	0	0	0	0	0	0	0	0	0	0	0	0	1
debit	39	3	0	6	5	7	33	9	0	39	16	21	178
net	-39	-3	0	-6	-5	-7	-33	-9	0	-39	-16	-21	-177
1.1.3 Money market instruments and financial derivatives, credit	0	0	0	0	0	0	0	0	0	0	0	0	0
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2 Other investment income, credit	2	0	0	0	0	0	0	0	0	0	0	11	13
debit	5	0	8	2	0	12	7	20	8	3	1	11	76
net	-3	0	-8	-2	0	-12	-7	-20	-8	-3	-1	0	-63
B. National Bank of Hungary													
1. Portfolio and other investment income, credit	82	29	45	20	20	16	21	44	42	44	29	25	417
debit	112	38	115	64	24	64	45	46	89	37	48	27	707
net	-30	-9	-69	-44	-4	-48	-23	-1	-47	7	-19	-2	-290
1.1 Portfolio investment income, credit	69	24	39	15	15	12	17	39	38	39	23	21	352
debit	88	38	103	62	19	60	44	46	79	36	43	23	640
net	-19	-13	-63	-47	-5	-48	-27	-6	-41	3	-19	-2	-288
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	2	0	0	0	0	0	2
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	0	0	0	0	0	0	2	0	0	0	0	0	2
1.1.2 Bonds and notes, credit	0	0	0	0	0	1	4	35	37	35	21	19	151
debit	88	38	103	62	19	60	44	46	79	36	43	23	640
net	-88	-38	-103	-62	-19	-59	-40	-11	-43	-1	-22	-4	-489
1.1.3 Money market instruments and financial derivatives, credit	69	24	39	15	15	11	11	5	2	4	2	2	199
debit	0	0	0	0	0	0	0	0	0	0	0	0	0
net	69	24	39	15	15	11	11	5	2	4	2	2	199
1.2 Other investment income, credit	13	5	6	5	5	4	4	5	4	5	5	4	65
debit	24	0	12	2	4	4	1	0	10	2	5	4	67
net	-11	5	-6	3	0	0	4	5	-6	3	0	0	-2

Annex VII/6 (continued)

INCOME ON PORTFOLIO AND OTHER INVESTMENT, SECTORAL BREAKDOWN, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.- Dec.
II. Private sector (C + D)													
1. Portfolio and other investment income, credit	19	20	18	16	18	25	20	22	24	17	24	25	249
debit	35	23	49	29	28	86	23	27	47	23	28	71	468
net	-16	-4	-30	-14	-10	-62	-2	-4	-23	-5	-4	-46	-219
1.1 Portfolio investment income, credit	0	2	4	2	2	2	3	5	5	3	2	5	36
debit	7	1	1	5	12	49	4	13	0	1	1	7	101
net	-6	2	2	-3	-10	-47	-1	-8	5	2	2	-2	-65
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	1	0	1	0	0	0	3
debit	2	1	0	0	11	49	3	3	0	1	0	4	74
net	-1	0	0	0	-11	-49	-3	-3	1	-1	0	-4	-71
1.1.2 Bonds and notes, credit	0	2	3	2	2	1	2	4	4	2	2	5	28
debit	0	0	1	0	1	0	0	9	0	0	0	3	14
net	0	2	2	2	1	1	2	-5	4	2	2	1	14
1.1.3 Money market instruments and financial derivatives, credit	0	0	1	0	0	1	1	0	0	1	0	0	5
debit	5	0	0	5	0	0	1	0	0	0	0	0	12
net	-5	0	0	-4	0	0	0	0	0	0	0	0	-8
1.2 Other investment income, credit	18	17	15	14	16	23	17	18	19	15	21	20	213
debit	28	23	47	25	16	37	18	14	47	22	27	64	367
net	-10	-5	-32	-11	0	-14	-1	4	-28	-7	-6	-44	-155
C. Credit institutions													
1. Portfolio and other investment income, credit	17	15	14	12	13	22	16	18	18	12	16	18	192
debit	24	18	30	16	6	24	9	18	18	12	13	28	215
net	-7	-3	-15	-4	7	-1	6	1	0	0	3	-10	-23
1.1 Portfolio investment income, credit	0	0	1	0	0	1	0	2	2	1	0	1	9
debit	5	0	0	0	0	4	0	8	0	0	0	0	18
net	-5	0	0	0	0	-4	0	-6	2	1	0	1	-9
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	0	0	0	0	0	0	0
debit	0	0	0	0	0	4	0	0	0	0	0	0	5
net	0	0	0	0	0	-4	0	0	0	0	0	0	-5
1.1.2 Bonds and notes, credit	0	0	0	0	0	1	0	2	2	1	0	1	8
debit	0	0	0	0	0	0	0	8	0	0	0	0	8
net	0	0	0	0	0	1	0	-5	2	1	0	1	0
1.1.3 Money market instruments and financial derivatives, credit	0	0	0	0	0	0	0	0	0	0	0	0	1
debit	5	0	0	0	0	0	0	0	0	0	0	0	6
net	-5	0	0	0	0	0	0	0	0	0	0	0	-5
1.2 Other investment income, credit	17	15	14	12	13	21	15	16	16	11	16	17	183
debit	19	18	30	16	6	19	9	10	18	12	13	28	197
net	-2	-3	-16	-4	7	2	6	6	-2	0	3	-11	-13
D. Enterprises and other sectors													
1. Portfolio and other investment income, credit	2	5	4	4	5	3	5	4	6	6	7	7	56
debit	11	6	19	14	21	63	13	9	29	11	15	43	253
net	-9	-1	-15	-10	-17	-60	-9	-5	-23	-5	-7	-36	-197
1.1 Portfolio investment income, credit	0	2	3	2	2	1	3	2	3	2	2	4	27
debit	2	1	1	5	12	45	4	5	0	1	1	7	82
net	-1	1	2	-3	-10	-43	-2	-3	3	1	2	-3	-55
1.1.1 Income on equity securities, credit	0	0	0	0	0	0	1	0	1	0	0	0	3
debit	2	1	0	0	11	45	3	3	0	1	0	4	69
net	-1	0	0	0	-11	-44	-3	-3	1	-1	0	-4	-66
1.1.2 Bonds and notes, credit	0	2	2	2	2	1	1	2	2	1	2	4	20
debit	0	0	1	0	1	0	0	2	0	0	0	3	6
net	0	2	2	2	1	1	1	0	2	1	1	1	14
1.1.3 Money market instruments and financial derivatives, credit	0	0	0	0	0	1	0	0	0	0	0	0	4
debit	0	0	0	5	0	0	1	0	0	0	0	0	7
net	0	0	0	-4	0	0	-1	0	0	0	0	0	-3
1.2 Other investment income, credit	1	3	1	2	2	1	2	2	3	4	5	3	29
debit	9	5	18	9	9	18	9	4	29	10	14	36	171
net	-8	-3	-17	-7	-7	-17	-7	-2	-26	-6	-9	-33	-142

Source: NBH

**PORFOLIO AND OTHER INVESTMENT, SECTORAL AND MATURITY
BREAKDOWN, 1996-98**

EUR millions

	1996	1997	1998
I. Government and NBH (A + B)			
1. Portfolio investment, net	-620	-1,674	1,304
1.1 Assets, net	14	2	156
1.1.1 Equity securities, net	0	0	0
1.1.2 Bonds and notes, net	0	0	-1
1.1.3 Money market instruments, net	0	0	1
1.1.4 Financial derivatives, net	14	2	156
1.2 Liabilities, net	-635	-1,675	1,148
1.2.1 Equity securities, net	0	0	0
1.2.2 Bonds and notes, net	-544	-1,659	1,161
1.2.3 Money market instruments, net	-89	-13	0
1.2.4 Financial derivatives, net	-1	-3	-13
2. Other investment, net	-2,192	-658	-1,028
2.1 Assets, net	47	167	71
2.1.1 Short-term, net	3	1	-10
2.1.2 Long-term, net	44	166	81
2.2 Liabilities, net	-2,238	-825	-1,099
2.2.1 Short-term, net	-198	-25	90
2.2.2 Long-term, net	-2,040	-800	-1,189
3. International reserves	1,171	127	-760
A. Government			
1. Portfolio investment, net	86	124	871
1.1 Assets, net	0	0	0
1.1.1 Equity securities, net	0	0	0
1.1.2 Bonds and notes, net	0	0	0
1.1.3 Money market instruments, net	0	0	0
1.1.4 Financial derivatives, net	0	0	0
1.2 Liabilities, net	86	125	871
1.2.1 Equity securities, net	0	0	0
1.2.2 Bonds and notes, net	176	138	871
1.2.3 Money market instruments, net	-89	-13	0
1.2.4 Financial derivatives, net	0	0	0
2. Other investment, net	-227	79	-195
2.1 Assets, net	35	166	68
2.1.1 Short-term, net	0	2	-13
2.1.2 Long-term, net	35	165	81
2.2 Liabilities, net	-262	-88	-263
2.2.1 Short-term, net	0	0	0
2.2.2 Long-term, net	-262	-88	-263
B. National Bank of Hungary			
1. Portfolio investment, net	-707	-1,798	433
1.1 Assets, net	14	2	156
1.1.1 Equity securities, net	0	0	0
1.1.2 Bonds and notes, net	0	0	-1
1.1.3 Money market instruments, net	0	0	1
1.1.4 Financial derivatives, net	14	2	156
1.2 Liabilities, net	-721	-1,800	277
1.2.1 Equity securities, net	0	0	0
1.2.2 Bonds and notes, net	-720	-1,797	290
1.2.3 Money market instruments, net	0	0	0
1.2.4 Financial derivatives, net	-1	-3	-13
2. Other investment, net	-1,965	-737	-833
2.1 Assets, net	11	1	3
2.1.1 Short-term, net	3	0	3
2.1.2 Long-term, net	8	1	0
2.2 Liabilities, net	-1,976	-738	-836
2.2.1 Short-term, net	-198	-25	90
2.2.2 Long-term, net	-1,778	-713	-926
3. International reserves	1,171	127	-760
^{a)} Of which: bonds denominated in Forint			795

Annex VII/7 (continued)

**PORFOLIO AND OTHER INVESTMENT, SECTORAL AND MATURITY
BREAKDOWN, 1996–98**

EUR millions

	1996	1997	1998
II. Private sector (C + D)			
1. Portfolio investment, net	300	755	482
1.1 Assets, net	-29	-109	-84
1.1.1 Equity securities, net	-12	-29	-41
1.1.2 Bonds and notes, net	0	-46	-73
1.1.3 Money market instruments, net	-16	-44	30
1.1.4 Financial derivatives, net	0	9	0
1.2 Liabilities, net	329	864	565
1.2.1 Equity securities, net	286	896	494
1.2.2 Bonds and notes, net	0	-3	142
1.2.3 Money market instruments, net	42	-29	-51
1.2.4 Financial derivatives, net	0	0	-19
2. Other investment, net	-39	645	438
2.1 Assets, net	-1,058	-694	-522
2.1.1 Short-term, net	-1,266	-423	-389
2.1.2 Long-term, net	208	-271	-133
2.2 Liabilities, net	1,020	1,339	960
2.2.1 Short-term, net	535	854	168
2.2.2 Long-term, net	485	485	792
C. Credit institutions			
1. Portfolio investment, net	-3	104	23
1.1 Assets, net	-7	-72	-14
1.1.1 Equity securities, net	0	0	0
1.1.2 Bonds and notes, net	0	-29	-48
1.1.3 Money market instruments, net	-7	-43	33
1.1.4 Financial derivatives, net	0	0	0
1.2 Liabilities, net	4	176	38
1.2.1 Equity securities, net	4	131	-7
1.2.2 Bonds and notes, net	0	-1	109
1.2.3 Money market instruments, net	0	47	-45
1.2.4 Financial derivatives, net	0	0	-19
2. Other investment, net	-600	265	288
2.1 Assets, net	-907	-747	-310
2.1.1 Short-term, net	-1,115	-495	-151
2.1.2 Long-term, net	208	-253	-159
2.2 Liabilities, net	308	1,012	598
2.2.1 Short-term, net	467	831	144
2.2.2 Long-term, net	-159	181	454
D. Enterprises and other sectors			
1. Portfolio investment, net	303	650	458
1.1 Assets, net	-21	-37	-69
1.1.1 Equity securities, net	-12	-29	-41
1.1.2 Bonds and notes, net	0	-17	-25
1.1.3 Money market instruments, net	-9	-1	-4
1.1.4 Financial derivatives, net	0	9	0
1.2 Liabilities, net	325	688	528
1.2.1 Equity securities, net	283	765	501
1.2.2 Bonds and notes, net	0	-2	32
1.2.3 Money market instruments, net	42	-76	-6
1.2.4 Financial derivatives, net	0	0	0
2. Other investment, net	561	380	150
2.1 Assets, net	-151	53	-212
2.1.1 Short-term, net	-151	72	-238
2.1.2 Long-term, net	0	-19	26
2.2 Liabilities, net	712	327	362
2.2.1 Short-term, net	68	23	24
2.2.2 Long-term, net	645	304	338

Source: NBH

PORFOLIO AND OTHER INVESTMENT, SECTORAL AND MATURITY BREAKDOWN, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.- Dec.
I. Government and NBH (A + B)													
1. Portfolio investment, net	77	436	-596	478	129	449	-284	-176	-159	-51	383	80	767
1.1 Assets, net	206	16	247	-2	-166	9	15	13	100	4	8	12	462
1.1.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes, net	-9	-4	0	0	0	0	-15	0	29	0	0	0	1
1.1.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives, net	215	21	247	-2	-166	9	29	13	71	4	8	12	461
1.2 Liabilities, net	-129	420	-842	480	294	440	-299	-188	-259	-55	376	68	304
1.2.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes, net	58	482	-588	492	149	470	-299	-157	-241	-36	396	117	844
1.2.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives, net	-188	-62	-254	-13	146	-30	0	-32	-18	-20	-21	-49	-540
2. Other investment, net	-141	-21	407	-316	-64	7	28	-3	398	186	-42	13	452
2.1 Assets, net	6	2	2	8	1	2	1	0	0	4	4	-4	27
2.1.1 Short-term, net	5	0	0	0	0	0	0	0	0	0	0	0	6
2.1.2 Long-term, net	1	2	1	8	1	2	1	0	1	4	4	-4	22
2.2 Liabilities, net	-148	-23	405	-324	-65	5	27	-3	397	182	-47	17	425
2.2.1 Short-term, net	-128	0	429	-303	-72	33	38	0	136	197	14	1	345
2.2.2 Long-term, net	-19	-23	-24	-21	7	-28	-11	-3	261	-15	-61	16	80
3. International reserves	179	-504	435	95	-123	-649	-231	-58	-416	-34	-836	-99	-2,241
A. Government													
1. Portfolio investment, net	144	500	-88	562	187	485	72	22	-64	76	482	245	2,624
1.1 Assets, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2 Liabilities, net	144	500	-88	562	187	485	72	22	-64	76	482	245	2,624
1.2.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes, net ^{a)}	144	500	-88	562	187	485	72	22	-64	76	482	245	2,624
1.2.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0	0	0
2. Other investment, net	-10	-6	-7	-1	16	-15	1	-1	278	0	-26	21	252
2.1 Assets, net	6	2	2	8	1	2	1	0	1	4	4	-4	27
2.1.1 Short-term, net	5	0	0	0	0	0	0	0	0	0	0	0	6
2.1.2 Long-term, net	1	2	1	8	1	2	1	0	1	4	4	-4	22
2.2 Liabilities, net	-16	-8	-8	-9	15	-16	-1	-1	277	-4	-30	25	224
2.2.1 Short-term, net	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2.2 Long-term, net	-16	-8	-8	-9	15	-16	-1	-1	277	-4	-30	25	224
B. National Bank of Hungary													
1. Portfolio investment, net	-66	-64	-507	-84	-58	-37	-357	-198	-94	-128	-99	-165	-1,857
1.1 Assets, net	206	16	247	-2	-166	9	15	13	100	4	8	12	462
1.1.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes, net	-9	-4	0	0	0	0	-15	0	29	0	0	0	1
1.1.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives, net	215	21	247	-2	-166	9	29	13	71	4	8	12	461
1.2 Liabilities, net	-273	-80	-754	-82	108	-46	-371	-210	-195	-132	-107	-177	-2,320
1.2.1 Equity securities, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes, net	-85	-18	-500	-70	-38	-16	-371	-179	-177	-112	-86	-128	-1,780
1.2.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives, net	-188	-62	-254	-13	146	-30	0	-32	-18	-20	-21	-49	-540
2. Other investment, net	-132	-15	414	-315	-80	22	28	-2	120	186	-16	-8	201
2.1 Assets, net	0	0	0	0	0	0	0	0	0	0	0	0	0
2.1.1 Short-term, net	0	0	0	0	0	0	0	0	0	0	0	0	0
2.1.2 Long-term, net	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2 Liabilities, net	-132	-14	414	-315	-80	22	28	-2	120	186	-16	-8	201
2.2.1 Short-term, net	-128	0	429	-303	-72	33	38	0	136	197	14	1	345
2.2.2 Long-term, net	-3	-14	-15	-12	-8	-12	-11	-2	-17	-11	-30	-9	-145
3. International reserves	179	-504	435	95	-123	-649	-231	-58	-416	-34	-836	-99	-2,241
^{a)} Of which: bonds denominated in Forint	144	8	-88	115	-31	-8	72	22	-43	84	83	245	601

Annex VII/8 (continued)

PORTFOLIO AND OTHER INVESTMENT, SECTORAL AND MATURITY BREAKDOWN, 1999

EUR millions

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.- Dec.
II. Private sector (C + D)													
1. Portfolio investment, net	-5	139	44	96	184	319	156	-21	-84	-19	145	129	1,084
1.1 Assets, net	178	6	23	-11	-14	-58	48	19	-6	3	-9	52	231
1.1.1 Equity securities, net	0	-2	-2	-6	6	-1	-1	-1	8	1	-3	16	15
1.1.2 Bonds and notes, net	-1	-3	-1	11	-24	0	-10	-22	-16	1	-6	-2	-72
1.1.3 Money market instruments, net	-2	-1	3	-21	2	-3	1	1	0	0	-3	8	-15
1.1.4 Financial derivatives, net	181	13	23	4	1	-55	58	42	2	1	3	30	303
1.2 Liabilities, net	-183	133	21	108	198	378	108	-41	-78	-22	154	77	853
1.2.1 Equity securities, net	-3	153	19	119	194	327	167	-2	-75	-19	158	87	1,126
1.2.2 Bonds and notes, net	0	0	1	1	0	-5	0	0	0	0	-1	0	-3
1.2.3 Money market instruments, net	0	0	0	-1	0	0	0	0	0	0	0	0	-1
1.2.4 Financial derivatives, net	-180	-20	0	-12	4	56	-59	-39	-3	-3	-3	-10	-269
2. Other investment, net	-45	-12	131	-91	-238	305	119	33	234	-174	296	-56	502
2.1 Assets, net	-72	106	-49	17	-439	-90	271	-167	109	-376	-85	-349	-1,125
2.1.1 Short-term, net	-29	134	-33	-19	-230	-105	271	-157	156	-369	91	-241	-532
2.1.2 Long-term, net	-43	-28	-16	36	-209	15	0	-9	-47	-7	-176	-108	-593
2.2 Liabilities, net	27	-117	180	-108	201	394	-151	200	125	203	381	293	1,627
2.2.1 Short-term, net	-113	-109	121	-119	-40	193	-292	16	111	97	36	259	160
2.2.2 Long-term, net	141	-9	59	11	241	201	141	184	15	106	345	34	1,468
C. Credit institutions													
1. Portfolio investment, net	-4	-5	23	-4	8	-16	6	-2	-9	103	40	61	203
1.1 Assets, net	182	14	25	7	-14	-53	64	34	-11	5	-3	40	290
1.1.1 Equity securities, net	0	0	0	0	0	0	0	0	2	0	-1	0	1
1.1.2 Bonds and notes, net	0	2	-1	5	-17	3	5	-9	-15	3	-3	2	-24
1.1.3 Money market instruments, net	-2	0	3	-2	2	-1	1	1	1	1	-3	7	8
1.1.4 Financial derivatives, net	183	13	23	4	1	-55	58	42	1	1	3	31	305
1.2 Liabilities, net	-186	-19	-3	-10	22	37	-58	-36	2	98	44	22	-88
1.2.1 Equity securities, net	-5	1	-3	1	18	-18	1	3	5	101	48	30	181
1.2.2 Bonds and notes, net	0	0	0	0	0	-1	0	0	0	0	-1	0	-1
1.2.3 Money market instruments, net	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives, net	-180	-20	0	-12	4	56	-59	-39	-3	-3	-3	-8	-268
2. Other investment, net	-131	75	50	-103	-234	175	25	-132	264	-191	269	30	96
2.1 Assets, net	-64	219	-62	24	-369	-20	311	-145	170	-229	6	-252	-412
2.1.1 Short-term, net	-83	247	-59	15	-173	-50	292	-135	205	-236	177	-241	-40
2.1.2 Long-term, net	19	-28	-4	9	-196	29	19	-10	-35	7	-171	-10	-372
2.2 Liabilities, net	-67	-144	112	-126	135	195	-286	13	94	38	263	282	508
2.2.1 Short-term, net	-118	-107	98	-134	-80	183	-294	5	98	56	11	272	-11
2.2.2 Long-term, net	50	-37	14	8	215	12	8	8	-4	-18	252	10	519
D. Enterprises and other sectors													
1. Portfolio investment, net	-1	144	22	100	176	335	150	-19	-75	-122	105	68	882
1.1 Assets, net	-4	-8	-2	-18	0	-6	-16	-15	5	-2	-5	13	-59
1.1.1 Equity securities, net	0	-2	-2	-6	6	-1	-1	-1	6	1	-2	16	14
1.1.2 Bonds and notes, net	-1	-5	0	6	-6	-3	-15	-14	-1	-1	-4	-4	-48
1.1.3 Money market instruments, net	0	-1	0	-18	0	-2	0	0	-1	-1	0	1	-23
1.1.4 Financial derivatives, net	-3	0	0	0	0	0	0	0	1	0	0	-1	-3
1.2 Liabilities, net	2	152	24	118	176	341	166	-4	-80	-120	110	55	940
1.2.1 Equity securities, net	2	152	22	118	176	345	166	-4	-80	-120	110	57	945
1.2.2 Bonds and notes, net	0	0	1	1	0	-4	0	0	0	0	0	0	-1
1.2.3 Money market instruments, net	0	0	0	-1	0	0	0	0	0	0	0	0	-1
1.2.4 Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0	-2	-2
2. Other investment, net	87	-87	81	12	-4	130	95	165	-30	18	27	-86	406
2.1 Assets, net	-8	-113	13	-7	-70	-69	-40	-22	-61	-147	-91	-97	-713
2.1.1 Short-term, net	54	-113	25	-34	-57	-55	-21	-23	-49	-133	-87	1	-492
2.1.2 Long-term, net	-62	0	-12	27	-14	-14	-19	1	-12	-14	-4	-98	-221
2.2 Liabilities, net	95	26	68	18	66	199	135	187	31	165	118	11	1,120
2.2.1 Short-term, net	5	-2	23	15	40	11	3	11	12	41	25	-13	171
2.2.2 Long-term, net	90	28	45	4	25	188	132	176	19	124	93	24	949

Source: NBH

STOCK OF GROSS FOREIGN DEBT OF HUNGARY, 1990–95^{a)}

End of period

EUR millions

Period	By maturity of debt		By types of credit				Total
	Short-term	Medium and long-term	Financial	Commercial	Intergovernmental	Other ^{b)}	
<i>In convertible currencies</i>							
1990	2,178	13,576	13,027	1,466	350	912	15,754
1991	1,627	15,301	13,549	1,327	1,129	922	16,927
1992	1,894	15,863	14,067	2,491	1,198	–	17,756
1993	1,796	20,200	17,903	2,290	1,803	–	21,996
1994	1,954	21,300	19,386	2,028	1,840	–	23,254
1995	2,498	22,194	21,176	1,932	1,584	–	24,692
<i>In non-convertible currencies</i>							
1990	59	115	52	–	104	18	174
1991	28	87	26	–	78	12	115
1992	13	157	11	2	157	–	171
1993	5	0	3	2	0	–	5
1994	4	0	2	2	0	–	4
1995	4	0	2	2	0	–	4

Source: NBH

^{a)} Reflects methodical changes to the of balance of payments during the period beginning 31 December 1992.^{b)} Other credits have been detailed since 31 December 1992.**STOCK OF INTERNATIONAL RESERVES AND OTHER FOREIGN ASSETS OF HUNGARY, 1990–95**

End of period

EUR millions

Period	International reserves				Other foreign assets ^{a)}					
	Convertible currencies			Non-convertible currencies	Convertible currencies			Non-convertible currencies		
	Gold ^{b)}	Foreign exchange	Total		Short-term	Long-term	Total	Short-term	Long-term	Total
1990	72	792	864	595	2,029	1,056	3,085	80	358	438
1991	62	2,940	3,001	527	1,947	1,106	3,053	87	298	385
1992	28	3,601	3,629	39	2,150	981	3,132	66	910	975
1993	40	5,993	6,033	40	1,749	846	2,595	16	569	584
1994	34	5,484	5,519	10	1,345	951	2,297	15	439	453
1995	33	9,335	9,368	9	1,611	594	2,206	12	357	369

Source: NBH

^{a)} Reflects methodical changes to the of balance of payments during the period beginning 31 December 1992.^{b)} Gold valued at 320 US\$/ounce between 1990–1991, and at London price in the period starting 1992.

STOCK OF FOREIGN ASSETS AND LIABILITIES OF HUNGARY, 1995–98

EUR millions

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
1. International reserves and other foreign assets	12,336	11,158	12,090	13,412
1.1 International reserves	9,368	7,823	7,640	8,002
Of which: gold	33	30	26	25
1.2 Direct investment	383	382	816	1,101
1.2.1 Equity capital abroad	383	381	652	1,001
1.2.2 Intercompany loans	0	1	164	100
1.3 Portfolio investment	7	173	155	258
1.3.1 Equity securities	6	1	29	74
1.3.2 Bonds and notes	0	25	73	152
1.3.3 Money market instruments	1	10	53	25
1.3.4 Financial derivatives	0	138	0	7
1.4 Other foreign assets	2,577	2,780	3,481	4,051
By original maturity:				
1.4.1 Short-term	1,632	1,823	2,312	2,904
1.4.2 Long-term	945	958	1,169	1,147
2. Gross foreign liabilities	33,998	34,041	37,319	39,049
2.1 Direct investment	10,007	12,041	14,578	15,862
2.1.1 Equity capital in Hungary	9,303	10,690	12,870	13,696
2.1.2 Intercompany loans	704	1,351	1,709	2,166
2.2 Portfolio investment	12,403	11,691	11,733	12,460
2.2.1 Equity securities	164	777	2,340	1,985
2.2.2 Bonds and notes	11,948	10,444	8,867	10,400
2.2.3 Money market instruments	212	155	118	65
2.2.4 Financial derivatives	78	315	408	10
2.3 Other foreign liabilities	11,589	10,309	11,008	10,728
By original maturity:				
2.3.1 Short-term	2,184	2,444	2,993	3,161
2.3.2 Long-term	9,405	7,865	8,015	7,567
3. Net foreign liabilities (2–1)	21,662	22,883	25,229	25,637
4. Net foreign debt (including intercompany loans (4.2–4.1))	12,585	11,797	10,699	11,031
4.1 Gold and gross foreign assets, constituting debt of non-residents (1.–1.2.1–1.3.1)	11,947	10,777	11,410	12,337
4.2 Gross foreign debt (2.–2.1.1–2.2.1)	24,531	22,574	22,109	23,368
5. Net foreign debt (excluding intercompany loans)(5.2–5.1)	11,880	10,447	9,154	8,966
5.1 Gold and gross foreign assets, constituting debt of non-residents (1.–1.2.1–1.2.2–1.3.1)	11,947	10,776	11,246	12,237
5.2 Gross foreign debt (2.–2.1.1–2.1.2–2.2.1)	23,827	21,223	20,400	21,203

Source: NBH

STOCK OF FOREIGN ASSETS AND LIABILITIES OF THE GOVERNMENT AND NBH, 1995–98

EUR millions

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
1. International reserves and other foreign assets	9,935	8,567	8,290	8,547
1.1 International reserves	9,368	7,823	7,640	8,002
Of which: gold	33	30	26	25
1.2 Direct investments				
1.2.1 Equity capital abroad	140	93	84	86
1.3 Portfolio investment	0	0	0	7
1.3.1 Equity securities	0	0	0	0
1.3.2 Bonds and notes	0	0	0	0
1.3.3 Money market instruments	0	0	0	0
1.3.4 Financial derivatives	0	0	0	7
1.4 Other foreign assets	427	652	566	452
By original maturity:				
1.4.1 Short-term	9	33	35	36
1.4.2 Long-term	417	618	532	416
2. Gross foreign liabilities	18,112	14,711	12,499	12,348
2.1 Direct investment				
2.1.1 Equity capital in Hungary	0	0	0	0
2.2 Portfolio investment	12,004	10,644	9,147	10,133
2.2.1 Equity securities	0	0	0	0
2.2.2 Bonds and notes	11,815	10,317	8,748	10,133
2.2.3 Money market instruments	112	12	0	0
2.2.4 Financial derivatives	78	315	400	0
2.3 Other foreign liabilities	6,108	4,067	3,351	2,215
By original maturity:				
2.3.1 Short-term	287	95	70	167
2.3.2 Long-term	5,821	3,972	3,281	2,049
3. Net foreign liabilities (2–1)	8,178	6,143	4,209	3,801
4. Net foreign debt (4.2–4.1)	8,317	6,236	4,293	3,887
4.1 Gold and gross foreign assets, constituting debt of non-residents (1.–1.2.1–1.3.1)	9,795	8,475	8,206	8,461
4.2 Gross foreign debt (2.–2.1.1–2.2.1)	18,112	14,711	12,499	12,348

Source: NBH

STOCK OF FOREIGN ASSETS AND LIABILITIES OF HUNGARY, 1999

EUR millions

	Dec. 1998	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1. International reserves and other foreign assets	13,412	13,876	14,500	14,380	14,502	15,333	16,217	15,753	16,461	16,792	17,409	18,971	19,233
1.1 International reserves	8,002	7,898	8,574	8,243	8,190	8,380	9,068	9,150	9,285	9,635	9,743	10,768	10,874
Of which: gold	25	25	26	26	27	26	25	24	24	29	29	29	29
1.2 Direct investment	1,101	1,216	1,287	1,357	1,442	1,542	1,588	1,507	1,616	1,654	1,642	1,727	1,553
1.2.1 Equity capital abroad	1,001	1,023	1,056	1,092	1,106	1,156	1,199	1,182	1,210	1,205	1,233	1,283	1,363
1.2.2 Intercompany loans	100	192	231	265	336	386	389	326	405	448	410	444	190
1.3 Portfolio investment	258	507	517	543	595	656	685	688	900	903	983	1,242	1,236
1.3.1 Equity securities	74	75	79	81	88	88	91	90	93	84	83	88	73
1.3.2 Bonds and notes	152	164	179	180	170	195	207	215	239	229	230	239	244
1.3.3 Money market instruments	25	27	28	25	46	46	50	49	49	52	50	56	47
1.3.4 Financial derivatives	7	242	232	257	291	327	338	334	519	538	619	858	872
1.4 Other foreign assets	4,051	4,255	4,123	4,237	4,275	4,754	4,875	4,408	4,660	4,601	5,040	5,234	5,570
By original maturity:													
1.4.1 Short-term	2,904	3,034	2,847	2,922	2,942	3,195	3,319	2,882	3,104	3,017	3,431	3,401	3,624
1.4.2 Long-term	1,147	1,220	1,275	1,315	1,333	1,559	1,556	1,527	1,556	1,584	1,609	1,833	1,945
2. Gross foreign liabilities	39,049	40,434	40,816	41,172	42,109	43,313	44,938	44,641	45,353	45,089	46,044	48,048	49,524
2.1 Direct investment	15,862	16,758	16,737	16,885	17,326	17,729	17,996	17,974	18,224	18,146	18,404	18,727	19,095
2.1.1 Equity capital in Hungary	13,696	14,403	14,339	14,416	14,853	15,116	15,340	15,238	15,424	15,345	15,603	15,915	16,226
2.1.2 Intercompany loans	2,166	2,355	2,398	2,470	2,473	2,613	2,655	2,736	2,800	2,801	2,801	2,812	2,869
2.2 Portfolio investment	12,460	12,988	13,391	12,887	13,829	14,429	15,317	15,353	15,538	14,853	15,039	16,125	16,937
2.2.1 Equity securities	1,985	2,101	1,948	1,915	2,244	2,618	2,964	3,430	3,523	3,059	3,162	3,560	4,295
2.2.2 Bonds and notes	10,400	10,519	11,042	10,603	11,206	11,395	11,948	11,621	11,713	11,522	11,605	12,314	12,412
2.2.3 Money market instruments	65	67	66	67	67	67	68	67	67	67	67	68	68
2.2.4 Financial derivatives	10	302	335	304	313	349	337	236	235	205	204	183	162
2.3 Other foreign liabilities	10,728	10,688	10,688	11,400	10,953	11,155	11,626	11,315	11,592	12,090	12,601	13,196	13,492
By original maturity:													
2.3.1 Short-term	3,161	2,953	2,882	3,466	3,175	3,085	3,338	2,991	3,044	3,264	3,611	3,762	4,024
2.3.2 Long-term	7,567	7,735	7,807	7,933	7,778	8,070	8,287	8,324	8,548	8,826	8,990	9,434	9,469
3. Net foreign liabilities (2-1)	25,637	26,559	26,316	26,792	27,607	27,981	28,721	28,888	28,893	28,296	28,635	29,077	30,291
4. Net foreign debt (including inter-company loans (4.2-4.1))	11,031	11,153	11,164	11,635	11,704	11,491	11,707	11,493	11,248	11,182	11,186	10,973	11,206
4.1 Gold and gross foreign assets, constituting debt of non-residents (1.-1.2.1-1.3.1)	12,337	12,777	13,366	13,207	13,308	14,089	14,926	14,481	15,158	15,503	16,093	17,599	17,798
4.2 Gross foreign debt (2.-2.1.1-2.2.1)	23,368	23,931	24,530	24,842	25,012	25,579	26,633	25,974	26,406	26,685	27,279	28,572	29,003
5. Net foreign debt (excluding intercompany loans) (5.2-5.1)	8,966	8,990	8,997	9,431	9,566	9,264	9,441	9,082	8,854	8,829	8,795	8,605	8,527
5.1 Gold and gross foreign assets, constituting debt of non-residents (1.-1.2.1-1.2.2-1.3.1)	12,237	12,585	13,135	12,942	12,972	13,703	14,537	14,155	14,752	15,055	15,683	17,155	17,608
5.2 Gross foreign debt (2.-2.1.1-2.1.2-2.2.1)	21,203	21,575	22,131	22,372	22,538	22,967	23,978	23,238	23,606	23,884	24,478	25,761	26,135

Source: NBH

STOCK OF FOREIGN ASSETS AND LIABILITIES OF THE GOVERNMENT AND NBH, 1999

EUR millions

	Dec. 1998	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1. International reserves and other foreign assets	8,547	8,630	9,326	9,061	9,033	9,272	9,978	10,050	10,361	10,703	10,881	12,170	12,288
1.1 International reserves	8,002	7,898	8,574	8,243	8,190	8,380	9,068	9,150	9,285	9,635	9,743	10,768	10,874
Of which: gold	25	25	26	26	27	26	25	24	24	29	29	29	29
1.2 Direct investments													
1.2.1 Equity capital abroad	86	87	88	89	90	90	91	89	90	89	90	91	91
1.3 Portfolio investment	7	189	197	254	282	324	339	347	516	515	581	832	839
1.3.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.3.2 Bonds and notes	0	9	14	15	15	15	15	29	30	0	0	0	0
1.3.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.3.4 Financial derivatives	7	180	182	239	267	309	324	318	486	515	581	832	839
1.4 Other foreign assets	452	456	468	475	473	477	481	463	470	463	467	479	483
By original maturity:													
1.4.1 Short-term	36	32	33	31	32	32	32	31	32	32	32	33	33
1.4.2 Long-term	416	424	435	444	441	445	449	432	438	431	435	446	450
2. Gross foreign liabilities	12,348	12,562	13,124	13,107	13,409	13,590	14,159	13,726	13,838	14,015	14,304	15,053	15,135
2.1 Direct investment													
2.1.1 Equity capital in Hungary	0	0	0	0	0	0	0	0	0	0	0	0	1
2.2 Portfolio investment	10,133	10,473	11,033	10,579	11,191	11,426	11,971	11,544	11,617	11,404	11,472	12,186	12,258
2.2.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2.2 Bonds and notes	10,133	10,250	10,764	10,323	10,924	11,113	11,670	11,343	11,435	11,245	11,328	12,046	12,144
2.2.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2.4 Financial derivatives	0	224	270	257	268	313	301	200	182	159	144	140	114
2.3 Other foreign liabilities	2,215	2,089	2,091	2,528	2,218	2,164	2,188	2,183	2,222	2,611	2,832	2,866	2,877
By original maturity:													
2.3.1 Short-term	167	40	41	469	167	95	130	163	165	298	504	536	537
2.3.2 Long-term	2,049	2,048	2,050	2,059	2,051	2,069	2,058	2,020	2,056	2,313	2,328	2,330	2,339
3. Net foreign liabilities (2–1)	3,801	3,932	3,798	4,046	4,376	4,318	4,180	3,677	3,477	3,312	3,423	2,883	2,847
4. Net foreign debt (4.2–4.1)	3,887	4,019	3,887	4,135	4,465	4,408	4,271	3,766	3,567	3,401	3,513	2,974	2,938
4.1 Gold and gross foreign assets, constituting debt of non-residents (1.–1.2.1–1.3.1)	8,461	8,543	9,238	8,972	8,944	9,182	9,888	9,960	10,271	10,614	10,791	12,078	12,196
4.2 Gross foreign debt (2.–2.1.1–2.2.1)	12,348	12,562	13,124	13,107	13,409	13,590	14,159	13,726	13,838	14,015	14,304	15,053	15,135

Source: NBH

Annex VII/15

**STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL
AND MATURITY BREAKDOWN, 1995-98**

EUR millions

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
I. Government and NBH (A +B)				
1. Portfolio investment, net (1.2-1.1)	12,004	10,644	9,147	10,125
1.1 Assets	0	0	0	7
1.1.1 Equity securities	0	0	0	0
1.1.2 Bonds and notes	0	0	0	0
1.1.3 Money market instruments	0	0	0	0
1.1.4 Financial derivatives	0	0	0	7
1.2 Liabilities	12,004	10,644	9,147	10,133
1.2.1 Equity securities	0	0	0	0
1.2.2 Bonds and notes	11,815	10,317	8,748	10,133
1.2.3 Money market instruments	112	12	0	0
1.2.4 Financial derivatives	78	315	400	0
2. Other investment, net (2.2-2.1)	5,682	3,415	2,785	1,763
2.1 Assets	427	652	566	452
2.1.1 Short-term	9	33	35	36
2.1.2 Long-term	417	618	532	416
2.2 Liabilities	6,108	4,067	3,351	2,215
2.2.1 Short-term	287	95	70	167
2.2.2 Long-term	5,821	3,972	3,281	2,049
3. International reserves	9,368	7,823	7,640	8,002
A. Government				
1. Portfolio investment, net (1.2-1.1)	174	238	329	1,164
1.1 Assets	0	0	0	0
1.1.1 Equity securities	0	0	0	0
1.1.2 Bonds and notes	0	0	0	0
1.1.3 Money market instruments	0	0	0	0
1.1.4 Financial derivatives	0	0	0	0
1.2 Liabilities	174	238	329	1,164
1.2.1 Equity securities	0	0	0	0
1.2.2 Bonds and notes	62	226	329	1,164
1.2.3 Money market instruments	112	12	0	0
1.2.4 Financial derivatives	0	0	0	0
2. Other investment, net (2.2-2.1)	1,010	863	944	749
2.1 Assets	400	624	538	432
2.1.1 Short-term	0	14	13	24
2.1.2 Long-term	400	610	524	408
2.2 Liabilities	1,411	1,487	1,482	1,182
2.2.1 Short-term	0	0	0	0
2.2.2 Long-term	1,411	1,487	1,482	1,182
B. National Bank of Hungary				
1. Portfolio investment, net (1.2-1.1)	11,831	10,406	8,818	8,962
1.1 Assets	0	0	0	7
1.1.1 Equity securities	0	0	0	0
1.1.2 Bonds and notes	0	0	0	0
1.1.3 Money market instruments	0	0	0	0
1.1.4 Financial derivatives	0	0	0	7
1.2 Liabilities	11,831	10,406	8,818	8,969
1.2.1 Equity securities	0	0	0	0
1.2.2 Bonds and notes	11,753	10,091	8,418	8,969
1.2.3 Money market instruments	0	0	0	0
1.2.4 Financial derivatives	78	315	400	0
2. Other investment, net (2.2-2.1)	4,671	2,552	1,841	1,014
2.1 Assets	26	28	29	20
2.1.1 Short-term	9	19	21	12
2.1.2 Long-term	17	9	7	7
2.2 Liabilities	4,698	2,580	1,869	1,033
2.2.1 Short-term	287	95	70	167
2.2.2 Long-term	4,411	2,485	1,799	867
3. International reserves	9,368	7,823	7,640	8,002
^{a)} Of which: bonds denominated in Forint				1,087

**STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL
AND MATURITY BREAKDOWN, 1995–98**

EUR millions

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
II. Private sector (C + D)				
1. Portfolio investment, net (1.2–1.1)	391	874	2,431	2,076
1.1 Assets	7	173	154	251
1.1.1 Equity securities	6	1	29	74
1.1.2 Bonds and notes	0	25	73	152
1.1.3 Money market instruments	1	10	53	25
1.1.4 Financial derivatives	0	138	0	0
1.2 Liabilities	398	1,047	2,586	2,327
1.2.1 Equity securities	164	777	2,340	1,985
1.2.2 Bonds and notes	133	127	119	268
1.2.3 Money market instruments	101	143	118	65
1.2.4 Financial derivatives	0	0	8	10
2. Other investment, net (2.2–2.1)	3,330	4,114	4,742	4,913
2.1 Assets	2,151	2,128	2,914	3,599
2.1.1 Short-term	1,623	1,789	2,277	2,868
2.1.2 Long-term	528	339	637	731
2.2 Liabilities	5,481	6,242	7,656	8,513
2.2.1 Short-term	1,897	2,349	2,922	2,995
2.2.2 Long-term	3,583	3,893	4,734	5,518
C. Credit institutions				
1. Portfolio investment, net (1.2–1.1)	141	-8	235	232
1.1 Assets	1	147	84	102
1.1.1 Equity securities	0	1	1	3
1.1.2 Bonds and notes	0	8	40	88
1.1.3 Money market instruments	1	0	43	11
1.1.4 Financial derivatives	0	138	0	0
1.2 Liabilities	142	139	319	334
1.2.1 Equity securities	9	12	146	94
1.2.2 Bonds and notes	133	127	119	229
1.2.3 Money market instruments	0	0	46	0
1.2.4 Financial derivatives	0	0	8	10
2. Other investment, net (2.2–2.1)	1,385	1,587	1,766	1,711
2.1 Assets	718	1,232	2,178	2,730
2.1.1 Short-term	468	1,178	1,848	2,252
2.1.2 Long-term	251	54	330	477
2.2 Liabilities	2,103	2,820	3,943	4,441
2.2.1 Short-term	1,096	1,807	2,642	2,685
2.2.2 Long-term	1,006	1,012	1,301	1,756
D. Enterprises and other sectors				
1. Portfolio investment, net (1.2–1.1)	250	882	2,196	1,845
1.1 Assets	6	26	71	149
1.1.1 Equity securities	6	0	28	71
1.1.2 Bonds and notes	0	17	33	64
1.1.3 Money market instruments	0	9	10	14
1.1.4 Financial derivatives	0	0	0	0
1.2 Liabilities	256	908	2,267	1,994
1.2.1 Equity securities	156	765	2,194	1,891
1.2.2 Bonds and notes	0	0	1	38
1.2.3 Money market instruments	101	143	72	64
1.2.4 Financial derivatives	0	0	0	0
2. Other investment, net (2.2–2.1)	1,945	2,526	2,976	3,202
2.1 Assets	1,433	896	737	870
2.1.1 Short-term	1,156	611	429	616
2.1.2 Long-term	277	285	308	254
2.2 Liabilities	3,378	3,422	3,713	4,072
2.2.1 Short-term	801	542	280	309
2.2.2 Long-term	2,577	2,880	3,433	3,762

Annex VII/15 (continued)

**STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL
AND MATURITY BREAKDOWN, 1995–98**

EUR millions

	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
III. Total economy (I +II)				
1. Portfolio investment, net (1.2 –1.1)	12,396	11,518	11,578	12,202
1.1 Assets	7	173	155	258
1.1.1 Equity securities	6	1	29	74
1.1.2 Bonds and notes	0	25	73	152
1.1.3 Money market instruments	1	10	53	25
1.1.4 Financial derivatives	0	138	0	7
1.2 Liabilities	12,403	11,691	11,733	12,460
1.2.1 Equity securities	164	777	2,340	1,985
1.2.2 Bonds and notes	11,948	10,444	8,867	10,400
1.2.3 Money market instruments	212	155	118	65
1.2.4 Financial derivatives	78	315	408	10
2. Other investment, net (2.2–2.1)	9,011	7,528	7,527	6,677
2.1 Assets	2,577	2,780	3,481	4,051
2.1.1 Short-term	1,632	1,823	2,312	2,904
2.1.2 Long-term	945	958	1,169	1,147
2.2 Liabilities	11,589	10,309	11,008	10,728
2.2.1 Short-term	2,184	2,444	2,993	3,161
2.2.2 Long-term	9,405	7,865	8,015	7,567
3. International reserves	9,368	7,823	7,640	8,002

Source: NBH

STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL AND MATURITY BREAKDOWN, 1999

EUR millions

	Dec. 1998	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
I. Government and NBH (A +B)													
1. Portfolio investment, net (1.2–1.1)	10,125	10,284	10,837	10,326	10,910	11,102	11,632	11,196	11,101	10,889	10,891	11,355	11,419
1.1 Assets	7	189	197	254	282	324	339	347	516	515	581	832	839
1.1.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes	0	9	14	15	15	15	15	29	30	0	0	0	0
1.1.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives	7	180	182	239	267	309	324	318	486	515	581	832	839
1.2 Liabilities	10,133	10,473	11,033	10,579	11,191	11,426	11,971	11,544	11,617	11,404	11,472	12,186	12,258
1.2.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes	10,133	10,250	10,764	10,323	10,924	11,113	11,670	11,343	11,435	11,245	11,328	12,046	12,144
1.2.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives	0	224	270	257	268	313	301	200	182	159	144	140	114
2. Other investment, net (2.2–2.1)	1,763	1,633	1,624	2,053	1,745	1,687	1,707	1,719	1,752	2,148	2,365	2,388	2,394
2.1 Assets	452	456	468	475	473	477	481	463	470	463	467	479	483
2.1.1 Short-term	36	32	33	31	32	32	32	31	32	32	32	33	33
2.1.2 Long-term	416	424	435	444	441	445	449	432	438	431	435	446	450
2.2 Liabilities	2,215	2,089	2,091	2,528	2,218	2,164	2,188	2,183	2,222	2,611	2,832	2,866	2,877
2.2.1 Short-term	167	40	41	469	167	95	130	163	165	298	504	536	537
2.2.2 Long-term	2,049	2,048	2,050	2,059	2,051	2,069	2,058	2,020	2,056	2,313	2,328	2,330	2,339
3. International reserves	8,002	7,898	8,574	8,243	8,190	8,380	9,068	9,150	9,285	9,635	9,743	10,768	10,874
A. Government													
1. Portfolio investment, net (1.2–1.1)	1,164	1,338	1,824	1,728	2,352	2,549	3,046	3,074	3,102	3,006	3,106	3,623	3,863
1.1 Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2 Liabilities	1,164	1,338	1,824	1,728	2,352	2,549	3,046	3,074	3,102	3,006	3,106	3,623	3,863
1.2.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes ^{a)}	1,164	1,338	1,824	1,728	2,352	2,549	3,046	3,074	3,102	3,006	3,106	3,623	3,863
1.2.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0	0
2. Other investment, net (2.2–2.1)	749	746	748	749	752	772	763	751	760	1,033	1,046	1,039	1,054
2.1 Assets	432	436	447	457	453	458	462	445	451	444	448	459	463
2.1.1 Short-term	24	19	20	20	20	20	21	20	20	20	20	21	21
2.1.2 Long-term	408	417	427	437	433	438	441	425	431	424	428	438	442
2.2 Liabilities	1,182	1,182	1,195	1,206	1,205	1,230	1,225	1,196	1,211	1,477	1,494	1,498	1,518
2.2.1 Short-term	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2.2 Long-term	1,182	1,182	1,195	1,206	1,205	1,230	1,225	1,196	1,211	1,477	1,494	1,498	1,518
B. National Bank of Hungary													
1. Portfolio investment, net (1.2–1.1)	8,962	8,946	9,013	8,598	8,557	8,553	8,585	8,123	7,999	7,883	7,786	7,732	7,556
1.1 Assets	7	189	197	254	282	324	339	347	516	515	581	832	839
1.1.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.2 Bonds and notes	0	9	14	15	15	15	15	29	30	0	0	0	0
1.1.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1.4 Financial derivatives	7	180	182	239	267	309	324	318	486	515	581	832	839
1.2 Liabilities	8,969	9,135	9,209	8,852	8,839	8,876	8,924	8,470	8,515	8,398	8,367	8,563	8,395
1.2.1 Equity securities	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.2 Bonds and notes	8,969	8,912	8,940	8,595	8,571	8,564	8,624	8,269	8,333	8,239	8,222	8,424	8,281
1.2.3 Money market instruments	0	0	0	0	0	0	0	0	0	0	0	0	0
1.2.4 Financial derivatives	0	224	270	257	268	313	301	200	182	159	144	140	114
2. Other investment, net (2.2–2.1)	1,014	887	875	1,303	993	915	944	968	991	1,114	1,318	1,349	1,340
2.1 Assets	20	20	20	19	19	19	19	19	19	19	19	20	20
2.1.1 Short-term	12	13	13	11	12	12	12	12	12	12	12	12	12
2.1.2 Long-term	7	7	7	7	7	7	7	7	7	7	7	7	7
2.2 Liabilities	1,033	907	896	1,322	1,012	934	963	987	1,010	1,134	1,338	1,368	1,359
2.2.1 Short-term	167	40	41	469	167	95	130	163	165	298	504	536	537
2.2.2 Long-term	867	867	855	853	845	839	834	824	845	836	834	832	822
3. International reserves	8,002	7,898	8,574	8,243	8,190	8,380	9,068	9,150	9,285	9,635	9,743	10,768	10,874
^{a)} Of which: bonds denominated in Forint	1,087	1,261	1,254	1,158	1,323	1,296	1,289	1,340	1,361	1,296	1,391	1,483	1,723

Annex VII/16 (continued)

STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL AND MATURITY BREAKDOWN, 1999

EUR millions

	Dec. 1998	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
II. Private sector (C + D)													
1. Portfolio investment, net (1.2–1.1)	2,076	2,196	2,037	2,019	2,324	2,671	3,000	3,469	3,537	3,062	3,164	3,529	4,282
1.1 Assets	251	318	321	289	314	333	346	341	384	387	402	410	397
1.1.1 Equity securities	74	75	79	81	88	88	91	90	93	84	83	88	73
1.1.2 Bonds and notes	152	155	164	165	155	180	192	186	210	229	230	239	244
1.1.3 Money market instruments	25	27	28	25	46	46	50	49	49	52	50	56	47
1.1.4 Financial derivatives	0	62	49	18	25	18	14	16	33	23	38	27	33
1.2 Liabilities	2,327	2,514	2,358	2,308	2,638	3,004	3,346	3,809	3,921	3,449	3,566	3,939	4,679
1.2.1 Equity securities	1,985	2,101	1,948	1,915	2,244	2,618	2,964	3,430	3,523	3,059	3,162	3,560	4,295
1.2.2 Bonds and notes	268	269	278	280	282	283	278	278	278	277	278	268	268
1.2.3 Money market instruments	65	67	66	66	67	67	68	67	67	67	67	68	68
1.2.4 Financial derivatives	10	78	66	47	45	36	36	35	53	47	60	43	48
2. Other investment, net (2.2–2.1)	4,913	4,801	4,942	5,110	4,933	4,714	5,043	5,187	5,180	5,341	5,196	5,574	5,529
2.1 Assets	3,599	3,799	3,655	3,762	3,803	4,277	4,394	3,945	4,190	4,137	4,573	4,755	5,087
2.1.1 Short-term	2,868	3,002	2,815	2,890	2,910	3,163	3,287	2,850	3,072	2,985	3,399	3,368	3,591
2.1.2 Long-term	731	796	841	872	893	1,114	1,108	1,095	1,118	1,152	1,174	1,388	1,496
2.2 Liabilities	8,513	8,599	8,597	8,872	8,736	8,991	9,437	9,132	9,370	9,479	9,769	10,329	10,616
2.2.1 Short-term	2,995	2,913	2,841	2,998	3,009	2,990	3,208	2,828	2,879	2,966	3,107	3,225	3,486
2.2.2 Long-term	5,518	5,687	5,756	5,874	5,727	6,001	6,229	6,304	6,491	6,513	6,662	7,104	7,129
C. Credit institutions													
1. Portfolio investment, net (1.2–1.1)	232	236	228	239	242	248	229	255	252	239	345	384	473
1.1 Assets	102	166	159	124	129	139	140	123	149	148	161	158	155
1.1.1 Equity securities	3	3	3	3	3	2	2	2	2	0	0	1	1
1.1.2 Bonds and notes	88	89	93	93	88	107	111	91	101	113	112	116	114
1.1.3 Money market instruments	11	13	13	10	13	12	13	14	13	12	11	15	7
1.1.4 Financial derivatives	0	62	49	18	25	18	14	16	33	23	38	27	33
1.2 Liabilities	334	402	386	363	371	387	369	378	402	388	507	543	628
1.2.1 Equity securities	94	94	82	76	86	111	94	104	110	102	208	271	351
1.2.2 Bonds and notes	229	229	239	239	239	239	239	238	238	238	238	228	228
1.2.3 Money market instruments	0	0	0	1	1	1	1	1	1	1	1	1	1
1.2.4 Financial derivatives	10	78	66	47	45	36	36	35	53	47	60	43	48
2. Other investment, net (2.2–2.1)	1,711	1,480	1,679	1,756	1,644	1,420	1,609	1,674	1,488	1,688	1,506	1,833	1,839
2.1 Assets	2,730	2,912	2,641	2,748	2,715	3,109	3,152	2,686	2,901	2,797	3,079	3,140	3,408
2.1.1 Short-term	2,252	2,438	2,133	2,229	2,212	2,404	2,472	2,024	2,221	2,088	2,369	2,237	2,494
2.1.2 Long-term	477	474	508	518	503	705	680	662	680	709	710	903	914
2.2 Liabilities	4,441	4,393	4,320	4,504	4,358	4,529	4,761	4,360	4,389	4,485	4,585	4,973	5,247
2.2.1 Short-term	2,685	2,600	2,531	2,666	2,535	2,475	2,680	2,312	2,347	2,425	2,522	2,607	2,880
2.2.2 Long-term	1,756	1,793	1,789	1,838	1,823	2,054	2,080	2,048	2,042	2,060	2,064	2,366	2,368
D. Enterprises and other sectors													
1. Portfolio investment, net (1.2–1.1)	1,845	1,960	1,809	1,780	2,082	2,424	2,771	3,213	3,285	2,822	2,819	3,144	3,810
1.1 Assets	149	152	162	165	185	193	206	218	234	239	241	252	241
1.1.1 Equity securities	71	72	76	78	85	86	89	88	90	83	83	87	71
1.1.2 Bonds and notes	64	66	71	72	67	73	81	94	109	116	118	123	130
1.1.3 Money market instruments	14	14	15	15	33	34	36	35	36	39	39	41	40
1.1.4 Financial derivatives	..	..	..	..	..	..	..	..	..	..	..	..	..
1.2 Liabilities	1,994	2,112	1,971	1,945	2,267	2,617	2,977	3,431	3,520	3,062	3,060	3,396	4,051
1.2.1 Equity securities	1,891	2,006	1,866	1,839	2,158	2,507	2,871	3,325	3,414	2,957	2,954	3,289	3,944
1.2.2 Bonds and notes	38	40	39	41	43	43	40	39	39	39	39	40	40
1.2.3 Money market instruments	64	66	66	66	66	67	67	66	67	66	67	67	67
1.2.4 Financial derivatives	..	..	..	..	..	..	..	..	..	..	..	..	..
2. Other investment, net (2.2–2.1)	3,202	3,320	3,263	3,354	3,289	3,294	3,434	3,513	3,692	3,653	3,690	3,741	3,689
2.1 Assets	870	887	1,014	1,014	1,088	1,167	1,243	1,259	1,289	1,341	1,494	1,615	1,679
2.1.1 Short-term	616	564	681	661	698	758	815	826	851	897	1,030	1,131	1,097
2.1.2 Long-term	254	323	333	353	390	409	428	432	438	444	463	484	582
2.2 Liabilities	4,072	4,207	4,277	4,368	4,377	4,462	4,677	4,771	4,981	4,994	5,184	5,356	5,368
2.2.1 Short-term	309	313	310	332	473	515	528	515	532	541	586	618	606
2.2.2 Long-term	3,762	3,894	3,967	4,036	3,904	3,947	4,149	4,256	4,449	4,452	4,598	4,738	4,762

STOCK OF PORTFOLIO AND OTHER INVESTMENT OF HUNGARY, SECTORAL AND MATURITY BREAKDOWN, 1999

EUR millions

	Dec. 1998	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
III. Total economy (I+II)													
1. Portfolio investment, net (1.2-1.1)	12,202	12,480	12,874	12,344	13,234	13,773	14,632	14,665	14,638	13,951	14,055	14,883	15,701
1.1 Assets	258	507	517	543	595	656	685	688	900	903	983	1,242	1,236
1.1.1 Equity securities	74	75	79	81	88	88	91	90	93	84	83	88	73
1.1.2 Bonds and notes	152	164	179	180	170	195	207	215	239	229	230	239	244
1.1.3 Money market instruments	25	27	28	25	46	46	50	49	49	52	50	56	47
1.1.4 Financial derivatives	7	242	232	257	291	327	338	334	519	538	619	858	872
1.2 Liabilities	12,460	12,988	13,391	12,887	13,829	14,429	15,317	15,353	15,538	14,853	15,039	16,125	16,937
1.2.1 Equity securities	1,985	2,101	1,948	1,915	2,244	2,618	2,964	3,430	3,523	3,059	3,162	3,560	4,295
1.2.2 Bonds and notes	10,400	10,519	11,042	10,603	11,206	11,395	11,948	11,621	11,713	11,522	11,605	12,314	12,412
1.2.3 Money market instruments	65	67	66	67	67	67	68	67	67	67	67	68	68
1.2.4 Financial derivatives	10	302	335	304	313	349	337	236	235	205	204	183	162
2. Other investment, net (2.2-2.1)	6,677	6,434	6,566	7,163	6,678	6,401	6,750	6,906	6,932	7,489	7,561	7,962	7,923
2.1 Assets	4,051	4,255	4,123	4,237	4,275	4,754	4,875	4,408	4,660	4,601	5,040	5,234	5,570
2.1.1 Short-term	2,904	3,034	2,847	2,922	2,942	3,195	3,319	2,882	3,104	3,017	3,431	3,401	3,624
2.1.2 Long-term	1,147	1,220	1,275	1,315	1,333	1,559	1,556	1,527	1,556	1,584	1,609	1,833	1,945
2.2 Liabilities	10,728	10,688	10,688	11,400	10,953	11,155	11,626	11,315	11,592	12,090	12,601	13,196	13,492
2.2.1 Short-term	3,161	2,953	2,882	3,466	3,175	3,085	3,338	2,991	3,044	3,264	3,611	3,762	4,024
2.2.2 Long-term	7,567	7,735	7,807	7,933	7,778	8,070	8,287	8,324	8,548	8,826	8,990	9,434	9,469
3. International reserves	8,002	7,898	8,574	8,243	8,190	8,380	9,068	9,150	9,285	9,635	9,743	10,768	10,874

Source: NBH

Annex VII/17

**FDI EQUITY IN HUNGARY BROKEN DOWN BY THE INVESTORS' COUNTRY
(GEOGRAPHIC REGION), NET 1999**

EUR millions

The investments' country/ geographic region	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.– Dec.
Austria	1,2	4,0	2,0	1,3	1,9	-1,3	4,2	6,7	-7,0	5,5	14,9	31,9	65,3
France	0,3	1,6	0,1	2,0	7,3	3,6	12,1	0,9	0,3	6,5	5,3	17,6	57,4
Netherlands	77,5	15,1	27,9	9,9	54,3	41,9	12,5	17,6	33,9	1,9	64,8	105,8	462,9
United Kingdom	0,3	0,1	12,3	11,0	50,4	0,3	-1,0	1,2	3,7	14,2	0,9	2,5	95,9
Germany	138,7	-1,6	21,5	14,6	17,2	25,1	19,7	58,7	23,3	13,7	43,2	36,3	410,4
Italy	1,1	0,1	2,9	0,4	0,1	3,5	11,5	1,8	2,0	1,5	1,6	13,5	40,0
Switzerland	0,6	2,3	0,7	0,3	0,2	4,0	-3,5	0,5	0,5	0,7	3,8	5,6	15,7
Luxemburg	0,1	0,2	4,0	-	-	-	0,0	-	-0,1	0,9	0,1	38,0	43,2
Other European Countries	39,2	44,4	1,5	23,1	-36,4	10,4	3,7	7,1	5,3	1,2	2,8	5,0	107,2
United States	8,3	-5,5	24,2	21,8	17,9	20,2	7,3	5,0	30,8	16,0	7,7	33,2	186,9
Canada	0,4	0,0	0,2	9,5	2,5	-0,1	4,8	1,8	4,9	0,1	0,2	-	24,4
Other American Countries	-	-	-	-	-	-	0,0	-	-	-	0,0	-	0,0
Africa	-	0,0	0,1	0,0	0,0	-0,0	-0,3	0,1	-0,1	0,1	0,0	0,2	0,1
Australia	-	-0,0	-0,0	-0,0	0,0	2,9	-13,0	1,9	0,0	0,9	0,0	2,2	-5,0
Japan	0,0	4,0	-8,1	1,4	8,8	1,4	4,3	9,5	-	3,7	1,8	0,0	27,0
Other Asian Countries	0,1	0,1	0,0	-1,5	0,0	3,1	0,1	-0,0	0,1	0,1	0,2	1,6	4,0
Not allocated	2,6	3,5	0,1	6,4	2,3	3,8	1,1	0,2	4,8	3,9	0,2	2,6	31,6
Total	270,3	68,1	89,4	100,2	126,7	119,0	63,4	112,9	102,5	71,0	147,5	296,0	1,567,2
Of which: EU	222,1	31,2	72,1	62,1	94,6	77,3	59,6	90,5	61,3	45,8	132,9	247,3	1,196,8
EMU	221,7	31,1	59,1	51,1	44,0	77,0	60,2	86,1	57,5	31,6	131,1	244,5	1,094,9

Forrás: MNB

Annex VII/18

**FDI EQUITY ABROAD BROKEN DOWN BY THE INVESTMENTS' COUNTRY
(GEOGRAPHIC REGION), NET 1999**

EUR millions

The investments' country/ geographic region	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.– Dec.
Austria	0,3	0,1	5,7	0,2	0,0	0,0	0,2	-	0,1	0,3	6,8	3,6	17,2
Romania	0,1	3,0	0,4	0,0	0,2	2,7	0,0	0,3	2,9	1,3	0,3	45,0	56,3
Netherlands	0,0	0,0	0,6	0,0	0,8	21,2	3,0	0,0	0,0	3,3	0,0	14,0	42,8
Poland	0,3	-	-	1,1	1,0	2,1	3,2	1,8	0,5	0,3	0,2	-	10,5
Germany	0,2	-0,0	0,4	0,2	1,8	0,1	0,0	0,2	0,2	0,3	3,0	0,5	6,8
Slovakia	0,1	0,0	0,0	0,0	0,0	-	6,3	0,5	0,0	-	0,0	0,9	7,9
Croatia	-	-	4,0	-0,0	-	-	0,7	0,0	-	0,5	0,9	-	6,1
Russia	-	-	-	1,3	-	-	0,0	0,9	-	1,1	0,0	0,0	3,4
Other European Countries	1,8	1,5	2,3	1,8	1,2	3,4	1,3	1,0	0,1	1,0	1,4	11,7	28,6
United States	0,1	0,9	1,2	0,3	32,0	1,1	0,2	-0,8	3,8	0,1	0,2	0,2	39,3
Other American Countries	-	-	-	-	-	-0,0	-	-	0,0	-	0,0	-	0,0
Africa	-	-	-	-	-	0,0	-	-	0,0	0,0	-	0,0	0,0
South Korea	-	-	-	-	-	-	-	10,0	-	1,5	-	-	11,5
Other Asian Countries	0,0	-	0,0	0,3	0,1	-	-	-	-	-	-	-	0,4
Not allocated	0,2	-0,0	-	-	0,0	-0,0	0,1	0,0	0,0	0,2	-	3,5	3,9
Total	3,0	5,4	14,8	5,2	37,1	30,7	15,0	14,0	7,6	9,9	12,8	79,4	234,9
Of which: EU	0,6	0,1	6,8	0,9	2,7	21,2	3,5	0,4	0,3	4,2	10,5	18,5	69,6
EMU	0,6	0,1	6,8	0,9	2,7	21,4	3,5	0,4	0,3	4,2	9,8	18,5	69,0

Source: NBH

**THE MATURITY BREAKDOWN OF HUNGARY'S MEDIUM AND LONG-TERM EXTERNAL DEBT
BY SECTORS^{a)}**

Outstanding at 31 December 1999

EUR millions

Date of maturity	Government sector		National Bank of Hungary	Credit institutions	Corporate and other sectors (guaranteed loans)	Total
	Total	O/w: Bonds denominated in domestic currency				
2000 Q1	68	24	644	66	13	790
2000 Q2	160	132	479	4	5	649
2000 Q3	344	130	151	80	13	587
2000 Q4	135	101	179	85	8	408
2000	706	398	1,452	236	39	2,433
2001 Q1	222	189	16	48	13	300
2001 Q2	198	168	476	154	7	835
2001 Q3	104	82	239	90	13	446
2001 Q4	130	94	494	195	15	834
2001	655	534	1,225	488	47	2,415
2002	523	413	1,054	404	51	2,031
2003	299	126	1,935	380	47	2,660
2004	1,052	190	1,302	519	38	2,911
2005	498	0	928	269	52	1,747
2006	753	0	60	129	50	991
2007	83	0	472	64	51	670
2008	79	0	198	13	59	348
2009	619	63	4	53	106	782
2010	75	0	129	3	24	231
After	40	0	345	38	134	556
Total	5,380	1,723	9,103	2,596	697	17,776

Source: NBH

^{a)} Includes guaranteed loans.

DEBT SERVICE INDICATORS OF HUNGARY^{a)} 1990–99
Based on balance of payments data

	1990	1991	1992	1993	1994	1995	1995	1996	1997	1998	1999	
	In convertible and non-convertible currencies						In convertible and non-convertible currencies					
	<i>EUR millions</i>											
Gross foreign debt (incl. intercomp. loans)	15,755	16,927	17,756	21,996	23,254	24,692	24,696	22,504	22,109	23,368	29,003	
Gross foreign debt (excl. intercomp. loans) ^{b)}	..	..	..	21,644	22,766	23,988	23,991	21,168	20,400	21,203	26,135
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)}	..	..	..	21,644	22,668	23,814	23,818	20,935	20,071	20,115	24,411
Net foreign debt (incl. intercomp. loans)	11,805	10,874	10,811	13,368	15,438	13,118	12,743	11,743	10,699	11,031	11,206	
Net foreign debt (excl. intercomp. loans) ^{b)}	..	..	..	13,016	14,950	12,413	12,038	10,407	9,154	8,966	8,527
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)}	..	..	..	13,016	14,852	12,240	11,865	10,174	8,825	7,879	6,804
Reserves (RES)	864	3,001	3,629	6,033	5,519	9,368	9,368	7,849	7,640	8,002	10,874	
Net reserves (NRES) ^{c)}	59	2,712	3,528	5,885	5,375	9,081	9,081	7,754	7,569	7,835	10,337	
GDP	25,962	27,007	28,788	33,011	34,980	34,516	34,516	36,065	40,491	41,858	45,479	
Trade balance, imports of goods	4,717	7,322	7,800	9,717	9,464	11,787	11,816	13,437	19,121	20,527	22,574	
Trade balance, exports of goods and services (XGS)	6,722	9,384	10,304	9,334	8,977	13,866	13,913	16,102	22,479	23,721	25,832	
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{d)}	3,324	3,269	3,656	4,217	5,282	6,324	6,324	7,612	8,406	6,381	4,771	
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{e)}	3,142	3,028	3,332	3,827	4,724	5,737	5,729	6,700	7,248	5,456	4,095	
Gross interest payments	1,300	1,317	1,263	1,358	1,641	1,822	1,822	1,851	2,002	1,762	1,379	
Net interest payments	1,118	1,076	939	969	1,084	1,235	1,227	939	844	838	703	
Current account balance	109	223	235	-2,959	-3,300	-1,927	-1,915	-1,339	-848	-2,020	-1,970	
Prepayments	33	238	439	598	857	745	745	1,347	1,424	1,551	294	
	<i>Per cent</i>											
Gross foreign debt (incl. intercomp. loans)/GDP	60.7	62.7	61.7	66.6	66.5	71.5	71.5	62.4	54.6	55.8	63.8	
Gross foreign debt (excl. intercomp. loans) ^{b)/GDP}	..	..	..	65.6	65.1	69.5	69.5	58.7	50.4	50.7	57.5
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)/GDP}	..	..	..	65.6	64.8	69.0	69.0	58.0	49.6	48.1	53.7
Net foreign debt (incl. intercomp. loans)/GDP	45.5	40.3	37.6	40.5	44.1	38.0	36.9	32.6	26.4	26.4	24.6	
Net foreign debt (excl. intercomp. loans) ^{b)/GDP}	..	..	..	39.4	42.7	36.0	34.9	28.9	22.6	21.4	18.7
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)/GDP}	..	..	..	39.4	42.5	35.5	34.4	28.2	21.8	18.8	15.0
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{d)/GDP}	12.7	11.2	11.2	11.0	12.6	16.2	16.2	17.4	17.2	11.5	9.8	
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{e)/GDP}	12.0	10.3	10.1	9.8	11.1	14.5	14.4	14.8	14.4	9.3	8.4	
Current account balance/GDP	0.4	0.8	0.8	-9.0	-9.4	-5.6	-5.5	-3.7	-2.1	-4.8	-4.3	
Gross foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)/XGS}	..	..	..	231.9	252.5	171.7	171.2	130.0	89.3	84.8	94.5
Net foreign debt denominated in foreign currencies (excl. intercomp. loans) ^{b)/XGS}	..	..	..	139.4	165.4	88.3	85.3	63.2	39.3	33.2	26.3
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{d)/XGS}	49.0	32.3	31.2	38.8	49.3	40.2	40.1	38.9	31.1	20.4	17.3	
Total Debt Service denominated in foreign currencies (TDS) (since 1996, excl. intercomp. loans) ^{e)/XGS}	46.2	29.7	28.1	34.6	43.1	36.0	35.8	33.2	25.9	16.5	14.7	
Gross interest payments/XGS	19.3	14.0	12.3	14.6	18.3	13.1	13.1	11.5	8.9	7.4	5.3	
Net interest payments/XGS	16.6	11.5	9.1	10.4	12.1	8.9	8.8	5.8	3.8	3.5	2.7	
	<i>Month(s)</i>											
Month(s) of import cover (RES)	2.2	4.9	5.6	7.4	7.0	9.5	9.5	7.0	4.8	4.7	5.8	
Month(s) of import cover (NRES)	0.1	4.4	5.4	7.3	6.8	9.2	9.2	6.9	4.8	4.6	5.5	

Source: NBH

^{a)} The debt service indicators do not reflect the effect of prepayments. GDP figures for 1998 are preliminary, for 1999 NBH estimate.^{b)} Figures for 1993 and 1994 are estimates.^{c)} NRES: Reserves less NBH short-term liabilities.^{d)} TDS: Amortisation of medium-term credit and gross interest expenditure.^{e)} TDS: Amortisation of medium-term credit and net interest expenditure.

VIII. PRICES

CONSUMER PRICE INDICES BY MAIN GROUPS OF EXPENDITURES

Per cent

Period	Food ^{a)}	Alcoholic beverages, tobacco	Clothing	Consumer durable goods	Fuel and power	Other goods	Services	Total
<i>1980 = 100</i>								
1987	151.1	157.9	175.6	134.1	160.9	160.6	176.1	159.1
1988	175.0	180.5	210.7	145.5	181.5	186.8	206.9	183.8
1989	206.0	200.5	249.0	171.1	202.2	228.6	241.2	215.0
1990	278.5	262.1	307.0	206.7	258.0	294.7	302.9	277.1
1991	339.5	327.8	405.6	272.2	467.0	422.6	429.8	374.1
1992	405.4	392.0	498.9	311.1	668.7	537.5	541.5	460.1
1993	523.8	464.9	582.2	345.3	804.5	653.6	672.0	563.6
1994	646.4	541.1	675.9	386.0	898.6	777.8	808.4	669.6
1995	847.4	649.9	812.4	478.6	1,347.9	990.1	1,018.6	858.4
1996	994.0	822.8	1,020.4	570.5	1,786.0	1,244.6	1,287.5	1,061.0
1997	1,168.0	978.3	1,211.2	619.0	2,320.0	1,445.0	1,534.7	1,255.0
1998	1,335.6	1,127.7	1,382.2	669.3	2,734.9	1,600.1	1,783.3	1,433.9
1999	1,374.5	1,257.2	1,528.6	713.4	2,990.8	1,834.6	2,047.8	1,577.4
<i>Previous year = 100</i>								
1987	109.2	113.5	109.7	102.3	106.5	106.2	109.0	108.6
1988	115.8	114.3	120.0	108.5	112.8	116.3	117.5	115.5
1989	117.7	111.1	118.2	117.6	111.4	122.4	116.6	117.0
1990	135.2	130.7	123.3	120.8	127.6	128.9	125.6	128.9
1991	121.9	125.1	132.1	131.7	181.0	143.4	141.9	135.0
1992	119.4	119.6	123.0	114.3	143.2	127.2	126.0	123.0
1993	129.2	118.6	116.7	111.0	120.3	121.6	124.1	122.5
1994	123.4	116.4	116.1	111.8	111.7	119.0	120.3	118.8
1995	131.1	120.1	120.2	124.0	150.0	127.3	126.0	128.2
1996	117.3	126.6	125.6	119.2	132.5	125.7	126.4	123.6
1997	117.5	118.9	118.7	108.5	129.9	116.1	119.2	118.3
1998	114.4	115.3	114.1	108.1	117.9	110.7	116.2	114.3
1999	102.9	111.5	110.6	106.6	109.4	114.7	114.8	110.0

Source: CSO

^{a)} Since 1992 including coffee, tea, soft drinks.

INDUSTRIAL OUTPUT PRICE INDEX BY DESTINATION

Per cent

Year	Energy, water	Materials and semi-finished products	Investment goods	Consumer goods
	<i>Previous year = 100</i>			
1994	102.6	112.8	111.9	113.5
1995	121.5	131.8	118.1	126.9
1996	126.6	124.5	113.4	120.7
1997	134.0	116.3	116.9	119.7
	Energy related industries	Intermediate goods industries	Capital goods industries	Non-durable and durable consumer goods industries
1998 ^{a)}	111.8	108.8	108.5	111.7
1999	110.5	105.4	105.3	105.8
	<i>December of previous year = 100</i>			
1994	104.6	117.2	117.2	116.4
1995	128.7	135.4	116.2	127.0
1996	123.8	120.4	109.1	121.8
1997	138.9	112.6	118.9	116.5
	Energy related industries	Intermediate goods industries	Capital goods industries	Non-durable and durable consumer goods industries
1998 ^{a)}	104.6	106.5	108.2	107.6
1999	119.6	108.6	103.6	107.6

Source: CSO

^{a)} From 1998, according to sectors.

INDUSTRIAL PRICE INDICES^{a)}

Per cent

Year	Producer price index	Domestic sales price index	Of which			Export sales prices
			Mining	Manufacturing	Electricity and water supply	
<i>Previous year = 100</i>						
1988	104.7	104.1	–	–	–	106.0
1989	115.4	113.4	–	–	–	118.2
1990	122.0	124.2	–	–	–	112.4
1991	132.6	131.9	–	–	–	130.2
1992	112.3	109.7	104.2	110.4	106.1	116.0
1993	110.8	110.5	106.4	111.0	109.2	112.5
1994	111.3	110.2	109.0	112.8	102.1	115.0
1995	128.9	127.3	121.5	126.1	127.3	134.0
1996	121.8	122.6	118.8	122.3	124.8	119.7
1997	120.4	120.8	120.5	117.8	134.1	119.5
1998	111.3	110.6	115.5	108.6	117.8	112.5
1999	105.1	107.1	109.6	106.8	107.7	102.8

Source: CSO

^{a)} By the new Standard Industrial Classification of the Economic Activities introduced in 1992.

DOMESTIC SALES PRICE INDICES OF MANUFACTURING

Per cent

Year	Food, beverages and tobacco products	Textile, clothing and leather products	Wood, paper and printed products	Chemical industry	Non-metallic mineral products	Metallurgy	Engineering	Other manufacturing industry
<i>Previous year = 100</i>								
1992	112.0	110.2	113.0	105.2	112.1	105.0	117.8	112.1
1993	116.7	108.8	113.5	106.5	112.0	102.7	109.3	111.9
1994	118.2	108.3	111.5	109.1	114.8	110.6	108.9	111.2
1995	122.2	125.2	138.5	129.7	123.7	132.0	119.8	122.3
1996	124.3	123.0	116.3	128.5	121.9	116.9	114.5	122.5
1997	122.4	115.6	109.4	116.6	119.4	113.3	117.6	114.4
1998	108.7	112.9	110.1	104.0	110.1	114.1	109.3	110.7
1999	103.7	109.7	106.6	112.8	110.4	101.4	105.6	110.0

Source: CSO

INVESTMENT PRICE INDICES ACCORDING TO MATERIAL-TECHNICAL COMPOSITION

Per cent

Year	Construction	Machinery	Other	Total
<i>1980 = 100</i>				
1981	104.1	101.7	102.2	102.9
1982	110.5	104.9	107.9	107.9
1983	117.6	110.4	119.3	114.8
1984	125.8	114.8	122.6	120.8
1985	134.1	119.6	126.0	127.0
1986	141.7	126.2	129.7	133.9
1987	151.6	132.8	136.1	142.1
1988	160.5	135.1	141.8	147.6
1989	177.7	152.8	158.4	165.2
1990	206.8	177.7	187.9	192.5
1991	244.6	225.1	243.3	235.2
1992	282.5	254.8	283.7	269.8
1993	319.2	282.3	320.2	302.5
1994	377.9	327.5	384.7	355.6
1995	482.2	403.8	483.0	446.3
1996	601.8	480.1	607.4	547.2
1997	721.0	550.7	728.9	644.6
1998	798.4	615.0	807.4	716.3
1999	880.6	645.1	–	771.4
<i>Previous year = 100</i>				
1988	105.9	101.7	104.2	103.9
1989	110.7	113.1	111.7	111.9
1990	116.4	116.3	118.6	116.5
1991	118.3	126.7	129.5	122.2
1992	115.5	113.2	116.6	114.7
1993	113.0	110.8	112.9	112.1
1994	118.4	116.0	120.1	117.6
1995	127.6	123.3	125.8	125.5
1996	124.8	118.9	125.5	122.6
1997	119.8	114.7	120.0	117.8
1998	110.7	111.7	110.8	111.1
1999	110.3	104.9	–	107.7

Source : CSO

PRICE INDICES OF CONSTRUCTION-INSTALLATION

Per cent

Year	Total	Overground construction ^{a)}	Civil engineering	Installation and completion	Maintenance and modernization of buildings
<i>Previous year = 100</i>					
1988	105.8	106.0	105.0	105.7	–
1989	109.6	109.5	110.2	108.8	–
1990	116.3	116.5	115.7	116.3	–
1991	119.2	122.0	114.4	116.2	–
1992	117.2	114.2	121.7	116.3	117.2
1993	112.0	112.1	113.5	110.9	111.8
1994	114.5	113.7	116.0	113.8	114.2
1995	126.6	125.7	128.7	125.6	127.3
1996	124.8	123.4	127.9	123.1	122.5
1997	119.9	119.5	121.5	118.9	119.0
1998	110.7	110.9	110.8	111.1	105.1

Source: CSO

^{a)} Until 1991 including maintenance and modernization of buildings.

Year	Total	Building of complete construction or parts thereof; civil engineering	Building installation	Building completion
1999	110.3	110.9	108.8	108.7

Source: CSO

PRICE INDICES OF EXTERNAL TRADE AND TERMS OF TRADE INDICATORS

Previous year = 100

Per cent

Year	Developed countries	CEECs ^{a)}	Developing countries	Total
<i>Export price index (A)</i>				
1981	99.6	106.1	104.3	103.8
1982	99.7	101.5	101.0	101.1
1983	105.7	104.9	106.9	105.3
1984	107.4	102.7	107.4	104.6
1985	103.3	103.5	100.3	102.9
1986	98.6	102.9	95.3	101.2
1987	111.4	97.9	108.5	103.1
1988	113.8	100.0	120.4	106.6
1989	117.1	114.3	114.1	115.6
1990	115.6	106.1	107.5	110.2
1991	119.5	155.1	125.1	130.7
1992	109.7	110.8	101.8	109.3
1993	109.4	117.2	113.7	111.9
1994	118.9	116.2	116.3	118.1
1995	135.0	130.1	137.0	133.9
1996	117.6	118.8	119.8	118.0
1997	114.7	114.9	116.3	114.8
1998	114.3	109.3	110.8	113.3
1999	103.9	103.7	99.4	103.8
<i>Import price index (B)</i>				
1981	99.7	109.4	98.8	104.6
1982	100.8	106.9	91.7	103.4
1983	108.6	107.8	107.6	108.1
1984	107.6	105.7	111.7	106.9
1985	103.0	105.1	99.9	103.9
1986	104.9	104.8	112.9	105.0
1987	112.1	95.1	102.3	102.1
1988	114.0	95.4	115.4	104.1
1989	115.4	109.4	107.7	112.4
1990	115.5	100.6	121.6	109.8
1991	129.3	214.8	115.3	145.9
1992	114.8	104.8	90.9	109.9
1993	111.9	105.3	108.0	109.4
1994	116.0	114.6	119.3	115.5
1995	131.0	136.0	134.2	132.2
1996	119.7	123.4	122.8	120.8
1997	111.6	119.0	115.5	113.4
1998	114.3	101.0	108.4	111.4
1999	105.3	108.1	102.7	105.5
<i>Terms of trade indicator (A/B)</i>				
1981	99.9	97.0	105.6	99.2
1982	98.9	94.9	110.1	97.8
1983	97.3	97.3	99.3	97.4
1984	99.8	97.2	96.2	97.8
1985	100.3	98.5	100.4	99.0
1986	94.0	98.2	84.4	96.4
1987	99.4	102.9	106.1	101.0
1988	99.8	104.8	104.3	102.4
1989	101.5	104.5	105.9	102.8
1990	100.1	105.5	88.4	100.4
1991	92.4	72.2	108.5	89.6
1992	95.6	105.7	112.0	99.5
1993	97.8	111.3	105.3	102.3
1994	102.5	101.4	97.5	102.3
1995	103.1	95.7	102.1	101.3
1996	98.2	96.3	97.6	97.7
1997	102.8	96.6	100.7	101.2
1998	100.0	108.2	102.2	101.7
1999	98.7	95.9	96.8	98.4

Source: CSO

^{a)} Formerly socialist countries prior to 1997.

IX. DATA ON EXCHANGE RATES

AVERAGE EXCHANGE RATES

Central rates^{a)} in forints per currency unit, unless otherwise indicated

Period	US dollar	Deutsche mark	Austrian schilling ^{b)} (100)	French franc	Japanese yen (100)	Pound sterling	Swiss franc	ECU/EUR ^{c)}	Czech koruna	Slovakian koruna	Polish zloty
1988	50.42	28.74	408.73	8.47	39.36	89.73	34.51	59.60	–	–	–
1989	59.10	31.47	447.06	9.27	42.85	96.72	36.15	65.07	–	–	–
1990	63.20	39.14	556.31	11.62	43.77	112.56	45.61	80.48	–	–	–
1991	74.81	45.18	639.95	13.28	55.65	132.10	52.27	92.70	–	–	–
1992	79.00	50.60	719.02	14.93	62.34	139.25	56.22	102.10	–	–	–
1993	92.03	55.63	790.92	16.23	83.33	138.21	62.33	107.50	–	–	–
1994	105.13	65.04	9.25	19.01	103.12	161.14	77.23	124.78	–	–	–
1995	125.69	87.84	12.49	25.23	134.20	198.30	106.62	162.65	–	–	–
1996	152.57	101.40	14.41	29.83	140.27	238.41	123.52	191.15	–	–	–
1997	186.75	107.68	15.30	31.99	154.69	305.96	128.74	210.93	–	–	–
1998	214.45	122.15	17.36	36.44	164.64	355.37	148.28	240.98	6.68	6.08	61.47
1999	237.31	129.25	18.37	38.54	209.59	383.85	157.96	252.80	6.86	5.73	59.82
January 1998	206.26	113.56	16.15	33.91	159.55	337.34	139.82	224.33	5.82	5.86	58.40
February	207.78	114.53	16.28	34.17	165.27	340.57	141.88	226.17	6.03	5.88	58.73
March	210.55	115.29	16.39	34.40	163.29	349.63	141.50	228.66	6.19	6.00	60.87
April ^{d)}	211.56	116.62	16.58	34.79	160.31	353.69	140.47	231.17	6.27	6.05	61.88
May	210.69	118.79	16.88	35.43	156.09	344.95	142.60	234.01	6.48	6.16	61.68
June	215.89	120.49	17.13	35.94	153.83	356.28	144.51	238.09	6.48	6.19	62.13
July	217.72	121.10	17.21	36.12	154.85	357.92	143.84	239.30	6.83	6.23	62.95
August	221.43	123.91	17.61	36.96	152.90	361.69	148.27	244.39	6.89	6.28	62.32
September	220.44	129.46	18.40	38.61	163.96	370.34	157.22	254.59	7.21	6.31	61.33
October	215.70	131.72	18.73	39.29	178.65	365.56	161.37	259.53	7.39	6.00	61.67
November	217.67	129.51	18.41	38.62	180.92	361.63	157.36	254.63	7.29	6.02	63.14
December	217.13	130.18	18.50	38.82	185.36	362.67	159.88	255.51	7.23	6.00	62.26
January 1999	215.96	128.26	18.23	38.24	190.98	356.39	156.25	250.84	7.03	5.86	61.14
February	223.25	127.94	18.19	38.15	191.34	363.59	156.55	250.24	6.62	5.81	58.93
March	233.15	129.82	18.45	38.71	194.87	377.73	159.21	253.91	6.68	5.71	59.05
April	235.68	129.06	18.34	38.48	197.04	379.55	157.57	252.42	6.65	5.62	59.01
May	235.28	127.94	18.18	38.14	193.22	379.90	156.12	250.22	6.64	5.47	59.83
June	240.16	127.51	18.12	38.02	198.75	383.47	156.35	249.39	6.72	5.48	60.90
July	241.94	128.05	18.20	38.18	202.24	380.98	156.12	250.45	6.86	5.56	62.34
August	239.09	129.62	18.42	38.65	210.92	383.79	158.39	253.52	6.96	5.69	60.47
September	242.97	130.51	18.55	38.91	227.12	394.22	159.35	255.26	7.03	5.84	59.47
October	240.53	131.74	18.72	39.28	226.96	398.73	161.61	257.66	7.03	5.90	58.54
November	246.45	130.41	18.54	38.88	235.29	400.18	158.92	255.06	7.01	5.90	58.00
December	251.29	130.05	18.48	38.78	245.01	405.40	158.86	254.36	7.06	5.98	60.19

Source: NBH

^{a)} Weighted by the number of working days.^{b)} Per currency unit since 1 November 1994.^{c)} From 1 January 1999 EUR exchange rates^{d)} Since April 1997, the NBH has been quoting Czech crown, Slovakian crown and Polish zloty exchange rates. The Bank has abandoned quoting official Irish punt and Kuwaiti dinar exchange rates.

OFFICIAL EXCHANGE RATES ON THE LAST DAY OF THE YEAR^{a)}

Central rates in forint per currency unit, unless otherwise indicated

Currencies	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
US dollar	62.54	61.45	75.62	83.97	100.70	110.69	139.47	164.93	203.50	219.03	252.52
Deutsche mark	36.87	40.47	49.83	51.96	58.06	71.47	97.38	106.17	113.59	130.65	130.34
Austrian schilling	5.24	5.75	7.07	7.39	8.26	10.16	13.84	15.09	16.15	18.57	18.53
Italian lira (1000)	49.21	53.63	65.84	56.83	58.81	68.17	88.02	107.99	115.63	130.73	131.26
French franc	10.78	11.89	14.58	15.24	17.08	20.73	28.48	31.49	33.95	38.95	38.86
Japanese yen (100)	43.52	45.24	60.35	67.32	90.22	111.05	135.39	141.74	156.50	192.42	247.06
Pound sterling	100.23	116.58	141.48	127.03	148.90	173.11	215.40	280.30	337.22	362.3	408.30
Irish pund	97.01	107.50	132.20	136.63	142.15	171.00	222.38	277.16	–	–	–
Swedish kronor	10.06	10.79	13.63	11.88	12.08	14.85	20.94	23.94	25.74	26.95	29.76
Swiss franc	40.43	47.41	55.85	57.61	68.11	84.46	121.19	122.22	139.82	158.94	158.85
Belgian franc (100)	175.29	195.67	241.83	252.96	279.26	347.64	473.95	515.41	550.60	633.4	631.93
Dutch guilder	32.65	335.84	44.21	46.24	51.87	63.82	86.98	94.58	100.78	115.94	115.68
Spanish peseta (100)	57.04	63.25	78.75	73.27	70.64	84.10	114.86	125.87	134.12	153.51	153.21
Finnish markka	15.40	16.75	18.29	16.00	17.40	23.38	32.03	35.52	37.50	42.97	42.87
Danish kronor	9.47	10.48	12.79	13.44	14.88	18.20	25.15	27.75	29.82	34.28	34.25
Norwegian krone	9.47	10.32	12.64	12.12	13.40	16.36	22.07	25.64	27.67	28.79	31.52
Canadian dollar	54.02	52.94	65.46	66.19	75.81	78.82	102.27	120.37	142.00	141.38	173.85
Australian dollar	49.48	47.40	57.50	57.76	68.35	85.91	103.77	131.37	132.89	134.44	163.38
Portuguese escudo (100)	41.76	45.26	56.17	57.18	57.07	69.58	93.32	105.41	111.11	127.39	127.15
Kuwaiti dinar	213.60	215.33	265.80	276.85	337.69	369.34	465.99	549.95	–	–	–
ECU/EUR ^{b)}	74.21	82.96	101.22	101.38	112.44	135.76	178.80	204.89	224.54	255.7	254.92
Czech crown	–	–	–	–	–	–	–	–	5.90	7.27	7.07
Slovak crown	–	–	–	–	–	–	–	–	5.84	5.94	5.98
Polish zloty	–	–	–	–	–	–	–	–	57.76	62.48	61.11

Source: NBH

^{a)} From April 1997 the range of officially quoted currencies has changed. The Czech crown, Slovak crown and Polish zloty have become officially quoted currencies, with official quotations of the Irish pound and Kuwait dinar have been terminated.^{b)} From 1 January 1999 EUR exchange rates.

GOVERNMENT EXCHANGE RATE POLICY MEASURES

Dates	Currency basket	Rate adjustments	USD	DEM	ECU
			Official daily central rate, in forints		
	Based on the currency composition of previous year's foreign trade until 8 December 1991				
9 December 1991	50% USD–50% ECU	–	77.08	48.92	99.30
16 March 1992		1.90	80.60	48.23	98.56
24 June		1.60	79.09	50.67	103.90
19 November		1.90	83.11	52.17	102.55
12 February 1993		1.90	86.58	52.52	102.10
26 March		2.90	88.95	54.25	105.23
7 June		1.90	89.96	55.34	108.11
9 July		3.00	95.23	55.49	108.34
2 August	50% USD–50% DEM		96.25	55.55	104.92
29 September		4.50	97.00	60.19	114.27
3 January 1994		1.00	101.71	58.64	113.59
16 February		2.60	104.15	60.31	116.64
13 May		1.00	103.53	61.90	119.43
16 May	70% ECU–30% USD		103.67	61.88	119.35
10 June		1.20	104.56	62.67	120.99
5 August		8.00	109.90	69.18	132.17
11 October		1.10	109.03	70.59	134.74
29 November		1.00	111.14	71.09	135.55
3 January 1995		1.40	112.53	72.20	137.51
14 February		2.00	113.62	74.66	140.84
13 March		9.00	120.03	85.45	155.57
	Introduction of pre-announced crawling peg adjustments				
16 March		Daily devaluations			
16 March		0.060	119.28	85.64	156.39
1 July		0.042	126.22	87.94	163.16
1 January 1996		0.040	139.58	97.40	178.84
1 January 1997	70% DEM–30% USD	–	164.11	106.59	–
				Central parity	
1 April		0.036	180.01	107.64	–
15 August		0.033	202.40	109.91	–
1 January 1998		0.030	208.59	116.05	–
15 June		0.026	219.64	121.37	–
1 October		0.023	213.85	128.02	–
1 January 1999	70%EUR–30% USD				EUR
1 January		0.020	216.45		256.73
1 July		0.016	246.42		255.88
1 October		0.013	244.42		262.16

Source: NBH

ANNUAL AVERAGE EXCHANGE RATES INDICES

Previous year's averages = 100

Per cent

1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>Average exchange rate changes of the forint against the currency basket</i>													
5.4	14.3	8.7	12.0	16.4	16.4	7.9	10.8	15.6	26.8	19.0	15.1	13.8	7.4
<i>Real effective exchange rate indices of the forint^{a)} calculated on the basis of industrial output prices^{b)}</i>													
89.1 (112.2)	87.6 (114.2)	93.3 (107.2)	99.1 (100.9)	99.8 (100.2)	105.5 (94.8)	99.6 (100.4)	103.8 (96.3)	95.3 (105.0)	94.1 (106.3)	103.8 (96.3)	105.4 (94.9)	96.3 (103.8)	100.3 (99.7)

Source: NBH

^{a)} The presentation of exchange rate indices in the first line conforms with international standards. Exchange rates in brackets are reciprocal indicators widely used in Hungary.

^{b)} 1997 exchange rates are calculated using manufacturing industry output prices.

X. DATA ON NET DOMESTIC LENDING

DOMESTIC CLAIMS OF THE NATIONAL BANK OF HUNGARY

Ft billions

End of period	I. Claims on general government					II. Claims on financial institutions	III. Other credits ^{b)}	Grand total (I + II + III)
	Lending to general government ^{a)}	Public debt securities	Interest-free debt	Foreign exchange credits	Total			
December 1991	844.1	–	777.9	–	1,622.0	417.5	2.0	2,041.5
December 1992	953.0	–	888.9	–	1,841.9	293.4	3.4	2,138.7
December 1993	984.8	–	1,182.0	–	2,166.8	368.8	4.0	2,539.6
December 1994	1,059.1	59.1	1,440.1	–	2,558.3	405.8	43.8	3,007.9
December 1995	990.3	131.1	2,023.3	–	3,144.7	302.6	28.2	3,475.5
December 1996	812.7	526.9	1,563.3	–	2,902.9	229.9	27.1	3,159.9
December 1997 ^{c)}	634.1	333.2	–	1,886.7	2,854.0	184.4	30.0	3,069.4
January 1998	632.4	333.2	–	1,902.8	2,868.4	179.4	30.0	3,077.8
February	632.4	333.2	–	1,917.7	2,883.3	178.4	30.0	3,091.7
March	597.0	333.2	–	1,935.8	2,866.0	176.9	30.0	3,072.9
April	594.7	331.5	–	1,945.5	2,871.7	174.8	30.0	3,076.5
May	594.6	331.5	–	1,996.6	2,922.7	170.2	30.0	3,122.9
June	578.0	331.5	–	2,011.0	2,920.5	164.7	30.2	3,115.4
July	578.0	331.5	–	2,004.9	2,914.4	164.2	30.0	3,108.6
August	578.0	331.5	–	2,087.7	2,997.2	166.2	30.0	3,193.4
September	560.8	331.5	–	2,120.3	3,012.6	197.1	30.0	3,239.7
October	560.8	331.5	–	2,113.8	3,006.1	193.5	30.0	3,229.6
November	543.1	331.5	–	2,110.1	2,984.7	190.7	30.0	3,205.4
December	525.7	286.1	–	2,117.8	2,929.6	178.5	30.0	3,138.1
January 1999	525.4	330.5	–	2,080.1	2,936.0	223.3	30.0	3,189.3
February	525.4	330.5	–	2,009.1	2,865.0	177.4	30.0	3,072.4
March	507.3	330.5	–	2,034.4	2,872.2	154.7	30.0	3,056.9
April	507.3	330.5	–	1,896.4	2,734.2	152.8	30.0	2,917.0
May	507.2	330.5	–	1,838.3	2,676.0	153.1	30.0	2,859.1
June	488.8	330.3	–	1,716.9	2,536.0	145.0	30.0	2,711.0
July	476.9	330.3	–	1,726.7	2,533.9	141.4	30.0	2,705.3
August	476.9	330.3	–	1,735.7	2,542.9	141.0	30.0	2,713.9
September	458.8	330.3	–	1,662.3	2,451.4	138.5	30.0	2,619.9
October	455.9	330.3	–	1,651.3	2,437.5	137.1	30.0	2,604.6
November	455.2	329.8	–	1,552.5	2,337.5	130.4	30.0	2,497.9
December	434.9	328.7	–	1,536.6	2,300.2	126.6	30.0	2,456.8

Source: NBH

^{a)} Includes, from April 1996, conversions of debt due to forint valuation changes (5 per cent of government paper issues).^{b)} Includes central bank loans to finance development projects of financial institutions and other domestic credits extended by NBH.^{c)} Reasons for the difference between end-December 1996 and 31 January 1997 data are the following:

- from early 1997 official exchange rates are based on market prices, so balance sheet items denominated in foreign currency are calculated at market rates;
- also from 1 January, CIB has been classified as resident bank, so settlements with CIB in the Bank's balance sheet were removed from foreign to domestic assets and liabilities;
- the general government debt arising from forint valuation changes was swapped into foreign currency credit on 2 January 1997.

NET POSITION OF THE FINANCIAL INSTITUTIONS WITH THE NATIONAL BANK OF HUNGARY

Ft billions

End of period	I. NBH lending to financial institutions			II. Deposits of financial institutions with the NBH ^{a)}	III. Net position of financial institutions with the NBH (II - I) ^{b)}	IV. Deposits to credit ratio (II/ I)
	Credits	Rediscounted bills of exchange	Total			
December 1991	412.8	4.7	417.5	510.5	93.0	1.2
December 1992	291.7	1.7	293.4	530.3	236.9	1.8
December 1993	367.4	1.4	368.8	600.4	231.6	1.6
December 1994 ^{c)}	404.3	1.5	450.8	721.6	315.8	1.8
December 1995	301.7	0.9	302.6	1,029.3	726.7	3.4
December 1996	229.6	0.3	229.9	1,098.5	868.6	4.8
December 1997 ^{d)}	185.3	0.1	185.4	1,340.3	1,154.9	7.2
January 1998	179.2	0.2	179.4	1,340.9	1,161.5	7.5
February	178.1	0.3	178.4	1,442.3	1,263.9	8.1
March	176.7	0.2	176.9	1,571.3	1,394.4	8.9
April	174.6	0.2	174.8	1,593.1	1,418.3	9.1
May	169.5	0.7	170.2	1,615.7	1,445.5	9.5
June	164.2	0.5	164.7	1,608.8	1,444.1	9.8
July	164.1	0.1	164.2	1,590.4	1,426.2	9.7
August	166.0	0.2	166.2	1,521.3	1,355.1	9.2
September	196.8	0.3	197.1	1,353.4	1,156.3	6.9
October	193.3	0.2	193.5	1,375.2	1,181.7	7.1
November	190.4	0.3	190.7	1,483.7	1,293.0	7.8
December	178.4	0.1	178.5	1,461.9	1,283.4	8.2
January 1999	223.3	0.0	223.3	1,424.7	1,201.4	6.4
February	177.4	0.0	177.4	1,544.5	1,367.1	8.7
March	154.7	0.0	154.7	1,515.6	1,360.9	9.8
April	152.8	0.0	152.8	1,441.1	1,288.3	9.4
May	153.1	0.0	153.1	1,451.8	1,298.7	9.5
June	145.0	0.0	145.0	1,437.2	1,292.2	9.9
July	141.4	0.0	141.4	1,559.9	1,418.5	11.0
August	141.0	0.0	141.0	1,612.7	1,471.7	11.4
September	138.5	0.0	138.5	1,542.5	1,404.0	11.1
October	137.1	0.0	137.1	1,501.2	1,364.1	10.9
November	130.4	0.0	130.4	1,629.8	1,499.4	12.5
December	126.6	0.0	126.6	1,655.4	1,528.9	13.1

Source: NBH

^{a)} Revised data. Deposits of insurance companies and other non-financial institutions are excluded.^{b)} - = net borrower, + = net depositor.^{c)} From January 1, 1994, the stock of deposits includes other investments of financial institutions at the NBH.^{d)} Reasons for the difference between end-December 1996 and 31 January 1997 data are the following:

- from early 1997 official exchange rates are based on market prices, so balance sheet items denominated in foreign currency are calculated at market rates;
- also from 1 January, CIB has been classified as resident bank, so settlements with CIB in the Bank's balance sheet were removed from foreign to domestic assets and liabilities.

LENDING OF THE NATIONAL BANK OF HUNGARY TO FINANCIAL INSTITUTIONS

Ft billions

End of period	A) NBH credits and loans to financial institutions						
	I. Refinancing and other credits and loans						II. Foreign exchange credits
	Credits and loans maturing within one year				Credits maturing over one year	Total	
	Ad hoc credits	Export prefinancing	Other ^{a)}	Subtotal			
December 1991	0.5	23.2	15.7	39.4	200.1	239.5	32.6
December 1992	1.1	9.5	29.2	39.8	199.5	239.3	16.6
December 1993	1.7	0.5	1.6	3.8	212.1	215.9	9.3
December 1994	0.0	–	2.6	2.6	222.4	225.0	7.0
December 1995	0.1	–	1.6	1.7	208.4	210.1	8.4
December 1996	2.0	–	0.7	2.7	143.2	145.9	6.4
December 1997 ^{b)}	0.4	–	0.4	0.8	119.6	120.4	15.9
January 1998	2.0	–	0.3	2.3	118.9	121.2	12.4
February	2.0	–	0.3	2.3	118.6	120.9	10.9
March	2.0	–	0.3	2.3	115.1	117.4	9.9
April	2.0	–	0.3	2.3	113.0	115.3	10.2
May	2.0	–	0.3	2.3	107.6	109.9	10.0
June	2.0	–	0.3	2.3	103.2	105.5	10.0
July	2.0	–	0.3	2.3	103.2	105.5	9.9
August	2.0	–	0.3	2.3	103.4	105.7	11.7
September	2.0	–	31.1	33.1	100.9	134.0	10.6
October	2.0	–	31.2	33.2	100.3	133.5	10.7
November	2.0	–	31.1	33.1	97.1	130.2	10.7
December	2.0	–	20.0	22.0	94.4	116.4	11.4
January 1999	2.0	–	20.0	22.0	93.6	115.6	11.2
February	2.0	–	20.0	22.0	93.8	115.8	11.3
March	2.0	–	0.3	2.3	91.3	93.6	11.2
April	2.0	–	0.2	2.2	90.0	92.2	11.2
May	2.0	–	0.2	2.2	86.6	88.8	10.9
June	2.0	–	0.2	2.2	83.8	86.0	11.3
July	2.0	–	0.2	2.2	81.0	83.2	10.8
August	2.0	–	0.2	2.2	80.7	82.9	10.9
September	2.0	–	0.2	2.2	79.1	81.3	9.9
October	2.0	–	0.5	2.5	78.8	81.3	10.0
November	2.0	–	0.5	2.5	75.7	78.2	6.8
December	2.0	–	0.5	2.5	74.9	77.4	6.3

Annex X/3 (continued)

LENDING OF THE NATIONAL BANK OF HUNGARY TO FINANCIAL INSTITUTIONS

Ft billions

A) NBH credits and loans to financial institutions					B) Rediscounted bills of exchange	Lending of NBH to financial institutions (A + B)	End of period
III. Credits provided against foreign exchange deposits			IV. Repurchase agreements	Grand total (I + II + III + IV)			
Maturing up to one year	Maturing over one year	Subtotal					
133.9	6.8	140.7	0.0	412.8	4.7	417.5	December 1991
28.6	7.2	35.8	0.0	291.7	1.7	293.4	December 1992
–	20.6	20.6	121.6	367.4	1.4	368.8	December 1993
–	129.8	129.8	42.5	404.3	1.5	405.8	December 1994
–	79.4	79.4	3.8	301.7	0.9	302.6	December 1995
–	77.3	77.3	0.0	229.6	0.3	229.9	December 1996
–	49.0	49.0	0.0	185.3	0.1	185.4	December 1997 ^{b)}
–	45.6	45.6	0.0	179.2	0.2	179.4	January 1998
–	46.3	46.3	0.0	178.1	0.3	178.4	February
–	49.4	49.4	0.0	176.7	0.2	176.9	March
–	49.1	49.1	0.0	174.6	0.2	174.8	April
–	49.6	49.6	0.0	169.5	0.7	170.2	May
–	48.7	48.7	0.0	164.2	0.5	164.7	June
–	48.7	48.7	0.0	164.1	0.1	164.2	July
–	48.6	48.6	0.0	166.0	0.2	166.2	August
–	49.4	49.4	2.8	196.8	0.3	197.1	September
–	49.1	49.1	0.0	193.3	0.2	193.5	October
–	49.5	49.5	0.0	190.4	0.3	190.7	November
–	50.6	50.6	0.0	178.4	0.1	178.5	December
–	50.7	50.7	45.8	223.3	0.0	223.3	January 1999
–	50.3	50.3	0.0	177.4	0.0	177.4	February
–	49.9	50.9	0.0	155.7	0.0	155.7	March
–	49.4	49.4	0.0	152.8	0.0	152.8	April
–	49.4	49.4	0.0	153.1	0.0	153.1	May
–	47.7	47.7	0.0	145.0	0.0	145.0	June
–	47.4	47.4	0.0	141.4	0.0	141.4	July
–	47.2	47.2	0.0	141.0	0.0	141.0	August
–	46.7	46.7	0.6	138.5	0.0	138.5	September
–	45.1	45.1	0.7	137.1	0.0	137.1	October
–	45.4	45.4	0.0	130.4	0.0	130.4	November
–	42.9	42.9	0.0	126.6	0.0	126.6	December

Source: NBH

^{a)} Refinancing of the discounting of export documents, credits made in foreign exchange, to 30 June 1993 interbank deposits intermediated by the NBH, etc.

^{b)} Reasons for the difference between end-December 1996 and 31 January 1997 data are the following:

– from early 1997 official exchange rates are based on market prices, so balance sheet items denominated in foreign currency on 1 January are calculated at market rates;

– also from 1 January 1997, CIB has been classified as resident bank, so settlements with CIB in the Bank's balance sheet were removed from foreign to domestic assets and liabilities.

FINANCIAL INSTITUTIONS' DEPOSITS WITH AND CLAIMS ON THE NATIONAL BANK OF HUNGARY

Ft billions

End of period	I. Deposits of domestic financial institutions									Total
	Fixed for less than one year ^{a)}			Required reserves ^{b)}			Fixed for more than one year			
	Deposit accounts	Foreign exchange deposits	Subtotal	On forint deposits	On foreign exchange deposits	Subtotal	Forint deposits	Foreign exchange deposits	Subtotal	
December 1991	29.9	221.1	251.0	124.9	41.4	166.3	0.2	71.1	71.3	488.6
December 1992	34.7	214.5	249.2	183.3	20.8	204.1	3.0	65.2	68.2	521.5
December 1993	25.4	296.2	321.6	169.5	10.1	179.6	0.0	91.0	91.0	592.2
December 1994	166.5	315.6	482.1	–	–	0.0	0.0	203.4	203.4	685.5
December 1995	236.0	482.8	718.8	–	–	0.0	0.0	192.6	192.6	911.4
December 1996	95.2	323.4	418.6	–	–	0.0	0.0	173.7	173.7	592.3
December 1997 ^{c)}	232.4	201.7	434.1	–	–	0.0	0.0	117.2	117.2	551.3
January 1998	385.0	171.4	556.4	–	–	0.0	0.0	116.1	116.1	672.5
February	354.5	126.9	481.4	–	–	0.0	0.0	112.9	112.9	594.3
March	300.4	78.6	379.0	–	–	0.0	0.0	120.9	120.9	499.9
April	368.4	81.4	449.8	–	–	0.0	0.0	119.9	119.9	569.7
May	371.3	70.6	441.9	–	–	0.0	0.0	121.0	121.0	562.9
June	385.7	46.5	432.2	–	–	0.0	0.0	122.0	122.0	554.2
July	377.1	99.3	476.4	–	–	1.2	0.0	110.8	110.8	588.4
August	357.5	54.6	412.1	–	–	0.0	0.0	114.6	114.6	526.7
September	344.0	282.1	626.1	–	–	0.0	0.0	114.4	114.4	740.5
October	347.0	306.2	653.2	–	–	0.4	0.0	113.3	113.3	766.9
November	498.5	394.5	893.0	–	–	0.5	0.0	114.6	114.6	1,008.1
December	295.7	358.6	654.3	–	–	1.0	0.0	114.4	114.4	769.7
January 1999	489.1	395.9	885.0	–	–	1.3	0.0	109.2	109.2	995.5
February	345.2	399.5	744.7	–	–	1.3	0.0	113.0	113.0	859.0
March	342.8	369.4	712.2	–	–	1.3	0.0	116.0	116.0	829.5
April	442.1	345.5	787.6	–	–	0.2	0.0	114.0	114.0	901.8
May	407.8	345.7	753.5	–	–	2.6	0.0	114.7	114.7	870.8
June	366.3	323.5	689.8	–	–	0.1	0.0	114.5	114.5	804.4
July	449.2	284.4	733.6	–	–	0.0	0.0	110.0	110.0	843.6
August	260.9	244.6	505.5	–	–	0.2	0.0	114.2	114.2	619.9
September	504.7	245.4	750.1	–	–	1.0	0.0	115.1	115.1	866.2
October	519.5	222.2	741.7	–	–	2.0	0.0	113.3	113.3	857.0
November	387.1	247.1	630.9	–	–	1.9	0.0	116.0	116.0	748.8
December	337.7	182.6	520.3	–	–	0.1	0.0	113.7	113.7	634.1

Annex X/4 (continued)

FINANCIAL INSTITUTIONS' DEPOSITS WITH AND CLAIMS ON THE NATIONAL BANK OF HUNGARY

Ft billions

II. Other claims ^{c)}	III. Repurchase agreements ^{d)}	Grand total (I + II + III)	Of which: foreign exchange deposits	End of period
11.8	10.1	510.5	292.2	December 1991
7.2	1.6	530.3	279.7	December 1992
8.2	–	600.4	387.2	December 1993
30.8	5.3	721.6	519.0	December 1994
63.1	54.8	1,029.3	675.4	December 1995
80.3	425.9	1,098.5	497.1	December 1996
281.7	508.2	1,314.2	318.9	December 1997 ^{e)}
313.0	355.4	1,340.9	287.5	January 1998
313.7	534.3	1,442.3	239.8	February
366.3	705.1	1,571.3	199.5	March
344.8	678.6	1,593.1	201.3	April
363.0	689.8	1,615.7	191.6	May
347.5	707.1	1,608.8	168.5	June
307.7	659.3	1,555.4	210.1	July
366.6	628.0	1,521.3	169.2	August
365.5	251.1	1,357.1	396.5	September
356.2	252.1	1,375.2	419.5	October
341.8	133.8	1,483.7	509.1	November
354.2	338.0	1,461.9	473.0	December
350.8	195.9	1,542.2	505.1	January 1999
304.9	380.6	1,544.5	512.5	February
290.6	395.5	1,515.6	485.4	March
279.3	260.0	1,441.1	459.5	April
275.0	306.0	1,451.8	460.4	May
256.0	376.8	1,437.2	438.0	June
275.8	440.5	1,559.9	394.4	July
253.8	739.0	1,612.7	358.8	August
256.6	419.7	1,542.5	360.5	September
257.2	387.0	1,501.2	335.5	October
257.9	623.1	1,629.8	359.8	November
256.7	764.6	1,655.5	296.3	December

Source: NBH

^{a)} Including sight deposits.^{b)} From October 1994 the stock of mandatory reserves is included in deposit accounts. 'Mandatory reserves' contain sanctioned mandatory reserves.^{c)} Stock of interbank financial market operations intermediated by the NBH to 30 June 1993. From 31 January 1990 to 30 November, 1992 includes foreign trade deposits and import forint cover deposits. From 31 December, 1993 includes other investments of financial institutions at NBH.^{d)} Up to 30 November, 1992 the stock includes CDs issued. From January 1997 includes non-callable deposits of credit institutions.^{e)} Reasons for the difference between end-December 1996 and 31 January, 1997 data are the following:

– from early 1997 official exchange rates are based on market prices, so balance sheet items denominated in foreign currency are calculated at market rates;

– also from 1 January 1997, CIB has been classified as resident bank, so settlements with CIB in the Bank's balance sheet were removed from foreign to domestic assets and liabilities.

**XI. BANKING SURVEY
AND MONETARY AGGREGATES**

AGGREGATE BALANCE SHEET OF CREDIT INSTITUTIONS^{a)}

Stock data of banks, specialized credit institutions and cooperative credit institutions, end of period

Ft billions

ASSETS	1998					1999				
	1 Jan.	31 March	30 June	30 Sept.	31 Dec.	31 March	30 June	30 Sept.	31 Dec.	
A/ General government and NPIs (I+..+IV)	1,023.5	923.3	907.1	1,066.9	1,218.5	1,160.9	1,159.6	1,160.6	1,133.6	
I/ Claims on central government and extrabudgetary funds (1+2+3+4)	960.2	859.7	831.1	991.9	1,128.9	1,070.3	1,070.8	1,071.5	1,040.5	
1. Claims on units of central government (a+..+d)	937.3	838.0	809.9	969.9	1,107.9	1,069.3	1,069.8	1,052.6	1,020.8	
a/ Consolidation government bonds	209.7	167.7	174.3	181.9	301.1	258.9	255.3	212.1	278.3	
b/ Other government bonds (ba+bb)	481.5	439.4	403.3	533.3	563.6	545.9	571.4	578.7	506.6	
ba/ Domestic currency	464.4	422.1	385.1	513.7	544.1	526.4	540.8	544.0	467.0	
bb/ Foreign currency	17.0	17.3	18.2	19.6	19.6	19.6	30.6	34.6	39.7	
c/ Treasury bills	221.2	210.8	223.7	246.1	234.3	245.0	224.6	210.3	185.3	
d/ Credits (da+db)	25.0	20.1	8.6	8.6	8.8	19.5	18.6	51.6	50.6	
da/ Domestic currency	19.7	15.6	8.6	8.6	8.8	19.5	18.6	17.4	16.8	
db/ Foreign currency	5.3	4.5	0.0	0.0	0.0	0.0	0.0	34.2	33.8	
2. Credits to extrabudgetary funds	22.5	21.7	20.9	21.7	21.0	1.0	0.9	0.9	0.9	
3. Credits to State Privatization and Holding Co. (a+b)	0.3	0.1	0.0	0.0	0.0	0.0	0.0	18.0	18.8	
a/ Domestic currency credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
b/ Foreign currency credits	0.3	0.1	0.0	0.0	0.0	0.0	0.0	18.0	18.8	
4. Compensation vouchers	0.1	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	
II/ Claims on local governments	30.9	30.1	39.6	36.1	44.9	42.2	50.4	48.3	49.9	
1. Credits (a+b+c)	30.4	29.6	39.0	35.6	44.4	41.7	49.9	48.3	49.9	
a/ Domestic currency - maturity of one year or less	6.7	3.8	6.7	7.2	12.2	10.3	14.7	12.1	11.4	
b/ Domestic currency - maturity of over one year	23.2	25.3	25.5	28.0	31.8	31.1	32.4	33.4	36.0	
c/ Foreign currency	0.5	0.5	6.8	0.4	0.4	0.3	2.8	2.9	2.5	
2. Bonds and similar obligations	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.0	0.0	
III/ Claims on NPIs	32.4	33.5	36.5	38.9	44.7	48.4	38.4	40.7	43.2	
1. Credits (a+b+c)	32.2	33.5	36.5	38.9	44.7	48.4	38.4	40.7	43.2	
a/ Domestic currency - maturity of one year or less	7.4	9.5	10.8	9.3	12.7	13.7	6.8	5.6	4.9	
b/ Domestic currency - maturity of over one year	11.2	10.0	9.7	13.1	14.0	16.0	17.1	20.2	22.9	
c/ Foreign currency	13.5	13.9	16.0	16.5	18.0	18.7	14.5	15.0	15.4	
2. Bonds, CDs and other securities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
IV/ Sale and repurchase agreements (central and local government authorities, NPIs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
B/ Claims on enterprises (1+2+3)	1,909.1	1,955.2	2,133.3	2,240.9	2,150.6	2,223.2	2,295.0	2,381.8	2,548.5	
1. Credits and similar claims (a+...+e)	1,706.6	1,755.6	1,879.5	1,992.6	1,975.2	2,041.2	2,109.5	2,196.1	2,366.4	
a/ Domestic currency - maturity of one year or less ^{b)}	679.5	673.3	720.3	749.5	707.6	735.0	809.2	837.6	858.0	
b/ Foreign currency - maturity of over one year ^{b)}	479.2	502.8	520.4	574.9	590.0	586.7	556.8	589.9	644.4	
c/ Discounted bills and claims purchased (Ft)	43.9	41.4	35.8	38.4	45.3	43.0	46.5	45.0	48.7	
d/ Foreign currency credits - maturity of one year or less	265.5	282.5	305.3	290.7	262.4	256.6	254.0	267.3	284.7	
e/ Foreign currency credits - maturity of over one year	238.5	255.7	297.8	339.2	369.8	419.9	443.0	456.3	530.6	
2. Claims other than credits (a+b+c)	202.3	199.3	253.5	247.6	174.6	181.5	185.3	185.5	181.2	
a/ Bonds, CDs and other securities	28.5	25.8	27.4	25.9	37.2	32.8	30.9	27.0	23.0	
b/ Financial investments	172.0	171.5	223.9	218.9	136.7	148.2	154.0	158.0	157.6	
c/ Financial leasing	1.8	1.9	2.2	2.8	0.7	0.6	0.5	0.5	0.7	
3. Sale and repurchase agreements	0.2	0.2	0.4	0.6	0.9	0.5	0.2	0.1	0.9	
C/ Claims on small entrepreneurs (1+2+3)	71.2	76.9	83.7	88.2	93.8	96.3	103.4	105.6	111.5	
1. Credits and similar claims (a+...+e)	71.2	76.9	83.7	88.2	93.7	96.3	103.4	105.6	111.5	
a/ Domestic currency - maturity of one year or less ^{b)}	18.1	20.8	22.1	22.3	22.2	22.6	26.9	26.6	29.1	
b/ Domestic currency - maturity of over one year ^{b)}	47.9	51.2	54.8	58.1	58.4	60.1	63.0	65.0	66.7	
c/ Discounted bills and claims purchased (Ft)	0.4	0.5	1.7	2.1	1.0	1.8	2.0	1.9	2.0	
d/ Foreign currency credits - maturity of one year or less	3.4	2.9	3.3	3.6	5.7	5.8	4.8	5.2	5.5	
e/ Foreign currency credits - maturity of over one year	1.4	1.5	1.8	2.0	6.4	6.1	6.7	6.9	8.2	
2. Financial leasing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
3. Sale and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Annex XI/I (continued)

AGGREGATE BALANCE SHEET OF CREDIT INSTITUTIONS^{a)}

Stock data of banks, specialized credit institutions and cooperative credit institutions, end of period

Ft billions

ASSETS	1998					1999				
	1 Jan.	31 March	30 June	30 Sept.	31 Dec.	31 March	30 June	30 Sept.	31 Dec.	
D/ Claims on households (1+2)	240.8	225.4	241.1	252.9	267.0	274.9	299.8	330.3	362.4	
1. Credits (a+b+c+d)	240.8	225.4	241.1	252.9	267.0	274.9	299.8	330.3	362.4	
a/ Overdrafts	8.9	10.7	12.4	14.5	14.7	17.9	18.8	19.5	18.5	
b/ Other domestic currency credits - maturity of one year or less	27.8	23.1	30.7	31.1	28.8	24.0	23.8	26.3	30.0	
c/ Domestic currency credits - maturity of over one year	203.6	191.2	197.4	206.7	222.8	232.4	256.4	283.5	312.6	
d/ Foreign currency credits	0.5	0.5	0.6	0.6	0.7	0.6	0.8	1.1	1.3	
2. Sale and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
E/ Claims on non-residents (1+2+3)f)	513.8	493.8	549.3	727.5	732.1	740.6	838.6	776.6	926.0	
1. Foreign currency holdings	36.8	37.4	39.2	40.6	42.7	22.6	22.8	28.9	21.0	
2. Claims on non-residents (a+b)	470.9	448.7	502.1	680.9	681.3	709.5	798.8	730.6	887.4	
a/ Claims - maturity of one year or less	387.8	352.9	377.2	545.2	536.0	552.9	600.9	518.7	625.0	
b/ Claims - maturity of over one year	83.1	95.9	124.9	135.7	145.3	156.6	197.9	211.9	262.4	
3. Financial investments	6.1	7.7	8.0	6.0	8.1	8.5	17.0	17.1	17.6	
F/ Claims on central bank, credit institutions and OFIs^c (1+2+3)	1817.4	2,072.9	2,184.4	2,021.7	2,229.6	2,212.1	2,212.0	2,390.1	2,416.3	
1. Claims on central bank (a+...+e)	1348.2	1,579.3	1,619.0	1,367.0	1,465.2	1,519.0	1,441.8	1,552.9	1,662.9	
a/ Domestic currency deposits	233.7	301.8	385.6	343.9	296.3	341.2	364.0	505.6	337.5	
b/ Foreign currency deposits	318.7	199.3	169.1	396.3	472.8	485.2	437.9	360.3	296.1	
c/ Reverse repo (and non-callable deposit facilities)	506.8	703.7	707.1	251.1	338.0	395.5	376.8	419.7	764.6	
d/ NBH bills	73.7	151.4	145.8	148.9	116.6	44.8	5.9	0.0	0.0	
e/ NBH bonds issued abroad and syndicated loans	215.3	223.1	211.5	226.8	241.6	252.4	257.3	267.3	264.8	
2. Claims on credit institutions (a+b+c+d)	402.7	426.9	487.6	550.9	612.9	536.7	605.5	665.6	573.1	
a/ Credits and deposits (aa+...+ad)	372.5	388.0	422.2	472.7	525.3	446.6	513.1	576.9	510.7	
aa/ Domestic currency deposits and credits - maturity of one year or less	183.0	151.7	160.9	241.3	283.0	254.0	283.7	329.3	283.6	
ab/ Domestic currency deposits and credits - maturity of over one year	21.6	22.3	21.6	27.2	22.4	21.8	23.9	27.0	23.6	
ac/ Foreign currency deposits and credits - maturity of one year or less	139.8	180.3	195.7	144.2	150.5	91.5	122.3	133.6	113.4	
ad/ Foreign currency deposits and credits - maturity over one year	14.3	16.5	25.7	38.6	49.2	54.0	54.4	57.5	61.2	
b/ Bonds and other debt issued abroad	11.5	18.2	23.6	26.2	26.1	27.7	29.7	29.4	28.7	
c/ Claims other than credits (ca+cb)	18.3	20.3	41.5	52.0	60.1	51.9	52.7	56.0	32.3	
ca/ Bonds, CDs and other securities	1.0	1.2	1.3	1.5	1.3	1.2	1.1	1.7	1.7	
cb/ Financial investments	17.3	19.1	40.2	50.5	58.8	50.7	51.6	54.2	30.5	
d/ Sale and repurchase agreements	0.4	0.4	0.3	0.1	1.3	10.4	9.9	3.3	1.4	
3. Claims on OFIs (a+b+c)	66.5	66.7	77.8	103.8	151.5	156.4	164.7	171.6	180.3	
a/ Credits (aa+...+ad)	32.7	30.0	36.6	53.8	56.7	62.8	69.3	78.2	83.9	
aa/ Domestic currency credits - maturity of one year or less	19.4	14.0	16.6	31.0	37.1	35.6	41.9	47.6	48.4	
ab/ Domestic currency credits - maturity of over one year	5.7	8.2	8.4	9.5	10.7	18.2	15.7	16.5	17.6	
ac/ Foreign currency credits - maturity of one year or less	7.3	7.5	10.7	12.3	7.5	7.4	8.9	9.8	10.7	
ad/ Foreign currency credits - maturity of over one year	0.3	0.4	0.9	1.0	1.4	1.7	2.7	4.3	7.3	
b/ Claims other than credits (ba+bb)	30.7	34.3	39.5	49.1	93.9	92.7	94.6	93.2	92.6	
ba/ Bonds, CDs and other securities	3.9	4.1	5.7	5.7	47.9	47.0	46.6	44.5	41.7	
bb/ Financial investments	26.8	30.2	33.8	43.4	46.0	45.7	47.9	48.7	50.9	
c/ Sale and repurchase agreements	3.0	2.4	1.6	0.9	1.0	0.8	0.9	0.3	3.8	
G/ Cash in hand	58.6	49.3	55.6	65.6	69.0	63.5	72.2	69.7	110.0	
H/ Specific provisions (a+b+c+d)	-116.0	-97.1	-98.7	-229.2	-178.4	-158.6	-159.4	-158.9	-147.7	
a/ Provision for loans	-95.2	-77.7	-79.1	-151.6	-115.1	-100.8	-90.2	-87.6	-94.7	
b/ Provision for securities	-7.0	-6.0	-5.5	-8.8	-36.0	-32.4	-36.6	-36.9	-12.3	
c/ Provision for financial investments	-10.5	-10.2	-10.0	-64.4	-21.3	-21.7	-28.8	-30.9	-36.9	
d/ Other provisions	-3.3	-3.1	-4.0	-4.3	-5.9	-3.7	-3.8	-3.7	-3.9	
I/ Accrued interest receivable	124.9	133.8	123.1	133.5	124.3	112.5	117.5	127.0	117.5	
J/ Provision for assets, excluding own bonds and treasury stock	145.6	152.3	160.4	165.1	174.9	188.1	193.7	202.6	192.2	
K/ Treasury stock	3.1	4.6	8.8	9.1	8.7	11.1	10.9	10.9	6.3	
L/ Other assets	64.4	95.6	81.0	86.8	44.8	98.0	52.7	61.9	40.1	
Total assets (A+...+L)^{d)}	5,856.4	6,085.9	6,429.3	6,629.0	6,934.9	7,227.7	7,196.0	7,458.1	7,816.8	

AGGREGATE BALANCE SHEET OF CREDIT INSTITUTIONS^(a)
 Stock data of banks, specialized credit institutions and cooperative credit institutions, end of period

Ft billions

LIABILITIES	1998					1999			
	1 Jan.	31 March	30 June	30 Sep.	31 Dec.	31 March	30 June	30 Sep.	31 Dec.
A/ General government and NPIs (I+...+IV)	198.1	199.8	178.9	199.2	217.4	216.4	196.5	223.7	235.8
I/ Deposit of central government and extrabudgetary funds (1+2+3+4)	7.6	6.9	4.9	4.9	5.0	4.8	3.7	4.6	4.5
1. Central government deposits (a+b)	4.1	4.1	2.0	2.7	2.9	3.2	1.8	2.4	2.6
a/ Domestic currency	0.5	0.5	0.6	1.0	1.6	2.2	1.0	1.1	1.2
b/ Foreign currency	3.6	3.6	1.4	1.7	1.3	1.0	0.8	1.3	1.4
2. Deposits of extrabudgetary funds (a+b)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a/ Domestic currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b/ Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Deposits of social security authorities (a+b)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a/ Domestic currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b/ Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Deposits of State Privatization and Holding Co. (a+b)	3.5	2.8	3.0	2.2	2.1	1.7	1.8	2.2	1.9
a/ Domestic currency	1.8	1.5	1.6	0.7	0.6	0.5	0.7	1.0	0.7
b/ Foreign currency	1.6	1.4	1.4	1.4	1.4	1.2	1.1	1.2	1.2
II/ Deposits of local government authorities (1+2)	116.1	112.4	93.1	113.3	123.5	115.0	91.8	119.2	126.2
1. Domestic currency sight and current account deposits	86.3	77.2	64.2	83.9	98.7	85.9	64.0	89.8	98.7
2. Other deposits (a+b)	29.7	35.2	28.8	29.4	24.8	29.1	27.9	29.4	27.5
a/ Domestic currency	29.0	34.5	28.2	28.7	24.4	28.1	27.0	29.0	27.2
b/ Foreign currency	0.7	0.7	0.6	0.6	0.4	1.0	0.9	0.4	0.4
III/ Deposits of NPIs (1+2) ^(d)	74.0	80.0	80.4	81.1	88.8	96.5	101.0	99.6	104.7
1. Domestic currency sight and current account deposits	34.2	36.1	37.0	37.0	41.0	45.1	44.4	42.9	47.6
2. Other deposits (a+b)	39.8	43.9	43.4	44.1	47.8	51.4	56.6	56.7	57.1
a/ Domestic currency	31.0	35.1	34.8	35.0	38.2	41.5	47.1	48.1	47.6
b/ Foreign currency	8.8	8.9	8.6	9.1	9.6	10.0	9.5	8.6	9.5
IV/ Sale and repurchase agreements (central and local government authorities, NPIs)	0.5	0.5	0.5	0.0	0.1	0.0	0.0	0.4	0.4
B/ Enterprise deposits (1+2+3)	961.3	879.4	940.2	941.6	1,030.8	972.0	997.2	1,085.8	1,212.9
1/ Domestic currency deposits (a+...+e)	732.9	657.0	711.1	714.8	800.7	742.9	778.8	837.0	977.4
a/ Sight and current account deposits	463.3	405.5	439.5	429.5	525.7	416.6	444.6	473.5	568.1
b/ Term deposits (excluding documentary deposits) - maturity of one year or less	240.0	222.8	238.6	252.3	249.6	299.8	308.4	338.9	385.4
c/ Term deposits (excluding documentary deposits) - maturity of over one year	17.8	18.0	18.3	18.7	11.9	12.6	12.3	12.0	12.1
d/ Documentary deposits - maturity of one year or less	10.7	9.5	12.9	12.2	11.5	11.8	11.3	10.4	9.8
e/ Documentary deposits - maturity of over one year	1.1	1.3	1.8	2.0	2.0	2.1	2.2	2.2	2.0
2/ Foreign currency deposits (a+b)	228.3	222.1	228.8	226.5	225.9	228.1	218.3	248.8	234.1
a/ Maturity of one year or less	226.7	221.6	228.2	226.1	225.6	227.9	218.1	248.4	233.5
b/ Maturity of over one year	1.6	0.5	0.5	0.4	0.3	0.2	0.2	0.4	0.7
3/ Sale and repurchase agreements	0.2	0.2	0.3	0.3	4.3	1.0	0.0	0.0	1.3
C/ Small entrepreneurs' deposits (1+2+3)^(d)	84.0	84.8	91.7	98.2	98.5	102.9	111.8	118.3	123.1
1/ Domestic currency deposits (a+b)	82.6	83.0	89.6	96.2	96.0	100.1	109.0	114.9	119.7
a/ Sight and current account deposits	66.6	67.1	72.7	78.5	78.1	79.7	86.1	92.8	90.8
b/ Term deposits	16.0	15.9	16.9	17.7	17.9	20.4	22.9	22.2	28.9
2/ Foreign currency deposits	1.3	1.7	2.0	2.1	2.5	2.8	2.8	3.4	3.4
3/ Sale and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D/ Household deposits (1+2+3)	2,097.1	2,136.0	2,184.3	2,305.7	2,505.0	2,602.3	2,655.3	2,713.3	2,815.7
1. Domestic currency deposits (a+...+e)	1,574.3	1,599.2	1,624.2	1,705.1	1,889.4	1,971.9	2,030.5	2,072.0	2,167.3
a/ Sight and current account deposits	279.7	277.3	296.1	318.3	357.7	370.2	406.0	422.5	445.4
b/ Term deposits (excluding documentary deposits) - maturity of one year or less	712.2	735.2	748.2	778.8	893.4	947.0	982.3	1,023.4	1,095.3
c/ Term deposits (excluding documentary deposits) - maturity of over one year	80.8	80.2	82.2	84.6	98.7	101.2	103.7	107.2	124.3
d/ Documentary deposits - maturity of one year or less	375.2	366.9	366.9	392.9	403.7	412.0	399.6	379.0	361.4
e/ Documentary deposits - maturity of over one year	126.4	139.5	130.9	130.4	136.0	141.4	138.8	139.8	141.0
2. Foreign currency deposits (a+b)	522.8	536.8	560.1	600.6	615.6	630.4	624.8	641.2	648.4
a/ Sight and current account deposits	520.7	534.9	558.1	598.2	613.3	628.0	622.4	638.9	645.7
b/ Term deposits - maturity of over one year	2.0	1.9	2.0	2.3	2.3	2.4	2.4	2.3	2.6
3. Sale and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0

Annex XI/I (continued)

AGGREGATE BALANCE SHEET OF CREDIT INSTITUTIONS^{a)}

Stock data of banks, specialized credit institutions and cooperative credit institutions, end of period

Ft billions

LIABILITIES	1998					1999				
	1 Jan.	31 March	30 June	30 Sep.	31 Dec.	31 March	30 June	30 Sep.	31 Dec.	
E/ Liabilities to non-residents (a+b)^{e)}	956.9	1,114.7	1,239.9	1,245.9	1,220.9	1,240.7	1,280.2	1,256.7	1,497.7	
a/ Maturity of one year or less	605.4	734.0	813.4	763.9	689.2	691.8	678.1	637.6	746.7	
b/ Maturity of over one year	351.6	380.7	426.5	482.0	531.7	548.9	602.1	619.1	751.1	
F/ Liabilities to central bank, credit institutions and OFIS^{b)} 1+2+3)	642.5	635.7	660.8	726.2	772.4	667.8	717.4	761.4	713.9	
1. Liabilities to central bank (a+b+c)	182.8	174.0	162.4	194.2	175.9	152.5	142.9	136.5	124.6	
a/ Repo	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.6	0.0	
b/ Other liabilities	167.2	164.5	151.9	181.1	164.9	141.6	131.8	126.1	118.4	
c/ Foreign currency liabilities	15.6	9.5	10.4	10.3	11.0	10.9	11.1	9.7	6.2	
2. Liabilities to credit institutions (a+b)	372.9	398.8	429.9	480.2	527.9	466.6	522.9	580.2	511.9	
a/ Credits and deposits (aa+...+ad)	372.5	388.0	422.1	472.7	525.3	446.6	513.2	577.0	510.7	
aa/ Domestic currency credits and deposits - maturity of one year or less	185.4	154.4	161.4	241.2	282.8	253.4	283.9	330.1	283.0	
ab/ Domestic currency credits and deposits - maturity of over one year	22.5	21.9	22.1	28.0	23.6	21.9	24.0	26.3	23.7	
ac/ Foreign currency credits and deposits - maturity of one year or less	140.0	179.7	195.1	143.3	152.6	93.0	124.2	136.2	114.2	
ad/ Foreign currency credits and deposits - maturity of over one year	24.6	32.0	43.5	60.2	66.4	78.3	81.0	84.3	89.8	
b/ Sale and repurchase agreements	0.4	10.8	7.8	7.5	2.6	20.0	9.7	3.2	1.3	
3. Liabilities to OFIS (a+b)	86.8	62.8	68.5	51.9	68.5	48.6	51.6	44.7	77.4	
a/ Deposits (aa+...+ad)	65.3	37.4	55.9	39.2	62.2	39.1	49.9	43.1	66.6	
aa/ Domestic currency sight and current account deposits	10.6	19.2	30.5	12.2	20.6	14.7	18.8	17.1	25.4	
ab/ Other domestic currency deposits - maturity of one year or less	42.3	5.8	13.0	8.6	25.7	9.9	16.7	11.9	26.6	
ac/ Other domestic currency deposits - maturity of over one year	0.6	0.6	0.6	0.7	0.0	2.3	2.3	2.5	3.3	
ad/ Foreign currency deposits	11.8	11.8	11.9	17.7	15.8	12.2	12.2	11.6	11.4	
b/ Sale and repurchase agreements	21.5	25.4	12.5	12.7	6.3	9.5	1.7	1.7	10.7	
G/ Domestically issued securities	37.1	35.0	32.9	31.3	29.6	30.9	37.9	41.6	51.0	
H/ Subordinated loan capital (1+2+3)	105.2	109.6	122.5	133.9	128.6	131.2	133.1	146.2	149.1	
1. Subordinated loan capital from residents	37.1	37.2	49.2	47.8	42.0	41.7	42.3	42.5	42.5	
2. Subordinated loan capital from non-resident owners	48.7	52.4	54.6	60.0	60.0	65.4	66.7	78.6	82.1	
3. Subordinated loan capital from other non-residents	19.4	20.0	18.7	26.0	26.5	24.1	24.0	25.1	24.4	
I/ Provisions	40.4	37.4	43.0	63.2	75.0	69.6	68.3	69.9	93.2	
J/ Equity (1+2+3)	499.6	548.9	604.9	478.2	597.0	618.4	639.6	670.9	666.1	
1. Subscribed capital ^{c)}	312.7	318.5	348.7	360.5	345.3	343.9	351.4	350.1	372.7	
2. Reserves	187.0	209.4	217.8	211.1	408.3	256.5	256.4	269.7	284.9	
3. Profit/loss per balance sheet	0.0	20.9	38.4	-93.4	-156.6	18.0	31.8	51.1	8.5	
K/ Accrued interest payable	84.8	103.5	127.0	156.4	92.5	99.8	117.9	128.9	79.7	
L/ Other liabilities	149.4	201.2	203.4	249.1	167.2	270.8	240.7	241.5	178.6	
TOTAL LIABILITIES (A+...+L)^{e)}	5,856.4	6,085.9	6,293.3	6,629.0	6,934.9	7,022.7	7,196.0	7,458.1	7,816.8	

Source: NBH

^{a)}Balance sheet serving statistical purposes; the following are differences between the statistical balance sheet and the credit institutions' aggregated statutory accounts:

- the statistical balance sheet does not include credit institutions' own bonds repurchased;
- liabilities of credit institutions arising from bonds issued abroad and foreign syndicated loans; shows them as liabilities to owners/creditors, based on the individual reports of credit institutions;
- due to misreporting by a number of banks, balance-of-payments foreign assets and liabilities are not comparable with those in the statutory accounts, therefore balance-of-payments stock data are shown in the aggregate balance sheet.

^{b)}Other financial institutions. They include financial enterprises, investment companies, insurers, and specialized financial institutions.^{c)}Includes the amount of subscribed but not paid-in capital and own funds of credit institutions operating as cooperative societies.^{d)}As a result of reclassifications, from December 1998 certain assets have been moved from non profit institutions to deposits of small entrepreneurs. Data for earlier periods are being modified retrospectively.^{e)}Starting from early 1999, foreign assets and liabilities as well as the balance sheet total include also the total of financial derivatives.

BANKING SURVEY^{a)}

A) ASSETS

Ft billions

End of period	Net credit to general government ^{b),k)}	Of which:		Credits to local governments	Credits to non-profit organisations	Credits to enterprises		
		Interest-free debt and public debt securities	Foreign exchange credits			Forint credits	Foreign exchange credits ^{j)}	Total
December 1989	1,187.3	460.7	–	13.4	4.8	462.6	11.3	473.9
December 1990	1,215.2	519.2	–	15.7	6.2	564.3	27.8	592.1
December 1991	1,540.2	777.9	–	13.6	9.4	656.6	47.3	703.9
December 1992 ^{e)}	1,835.5	888.9	–	13.0	6.0	630.0	61.8	691.8
January 1, 1993 ^{f)}	1,916.7	888.9	–	13.0	6.0	575.2	60.2	635.4
December 1993	2,411.4	1,182.0	–	22.7	6.4	610.6	65.6	676.2
December 1994	2,860.1	1,499.2	–	47.6	13.4	687.9	92.6	780.5
December 1995 ^{e)}	3,302.5	2,154.4	–	49.9	15.0	707.2	217.8	925.0
December 1996	3,413.3	2,090.2	–	38.5	19.8	847.1	350.1	1,197.2
December 1997 ⁱ⁾	3,462.7	333.2	1,886.7	30.3	32.2	1,196.4	508.3	1,704.7
January 1998 ^{h)}	3,358.5	333.2	1,902.8	28.7	33.6	1,198.3	511.4	1,709.7
February	3,386.7	333.2	1,917.7	28.6	34.6	1,183.5	520.0	1,703.5
March	3,449.2	333.2	1,935.8	29.6	33.5	1,219.4	538.4	1,757.8
April	3,342.8	331.5	1,945.5	31.7	36.0	1,247.0	544.4	1,791.4
May	3,359.1	331.5	1,996.6	32.9	35.7	1,257.7	588.6	1,846.3
June	3,362.6	331.5	2,011.0	39.0	36.5	1,278.9	603.3	1,882.2
July	3,285.5	331.5	2,004.9	35.9	36.0	1,280.0	610.1	1,890.1
August	3,528.9	331.5	2,087.7	37.0	36.6	1,295.0	651.3	1,946.3
September	3,683.8	331.5	2,120.3	35.6	38.9	1,365.6	630.2	1,995.8
October	3,649.9	331.5	2,113.8	36.5	40.6	1,403.0	637.8	2,040.8
November	3,619.6	331.5	2,110.1	40.3	44.2	1,411.5	651.8	2,063.3
December ^{h)}	3,859.8	331.5	2,117.8	44.4	44.7	1,343.4	632.6	1,976.0
January 1999 ^{h)}	3,726.1	330.5	2,080.1	41.6	44.9	1,358.0	634.9	1,992.9
February ^{h)}	3,683.6	330.5	2,009.1	43.2	45.4	1,333.4	663.9	1,997.3
March ^{h)}	3,736.1	330.5	2,034.4	41.7	48.4	1,364.9	676.9	2,041.8
April ^{h)}	3,522.6	330.5	1,896.4	42.2	46.9	1,386.6	670.8	2,057.4
May ^{h)}	3,499.0	330.5	1,838.3	43.7	42.4	1,386.0	685.8	2,071.8
June ^{h)}	3,247.8	330.3	1,716.9	49.9	38.4	1,412.7	697.3	2,110.0
July ^{h)}	3,169.9	330.3	1,726.6	51.5	37.8	1,421.7	706.2	2,127.9
August ^{h)}	3,143.3	330.3	1,735.7	51.8	38.7	1,417.5	713.2	2,130.7
September ^{h)}	3,089.4	330.3	1,662.3	48.3	40.7	1,472.7	723.9	2,196.6
October ^{h)}	2,998.1	330.3	1,651.3	46.3	40.1	1,494.9	745.6	2,240.5
November ^{h)}	2,890.4	329.8	1,552.5	48.0	39.0	1,517.6	765.2	2,282.8
Transactions	87.1	–1.1	–6.9	1.9	4.1	40.5	47.5	9.6
Exchange rate changes	–9.0	0.0	–9.0	0.0	0.1	0.0	2.4	5.6
Other changes in volume	0.0	0.0	0.0	0.0	0.0	–6.8	0.7	–0.2
December ^{h)}	2,968.4	328.7	1,536.6	49.9	43.2	1,551.4	815.7	2,367.1

BANKING SURVEY^{a)}

A) ASSETS

Ft billions

Credits to households and small enterprises			Credits to other financial institutions	Domestic credit stock ^{d)}	Other assets, net	Net domestic assets	End of period
Households ^{c)}	Small enterprises ^{b)}	Total					
313.5	18.7	332.2	0.0	2,011.6	-217.0	1,794.6	December 1989
330.0	44.0	374.0	1.2	2,204.4	-211.9	1,992.5	December 1990
202.0	61.4	263.4	1.9	2,532.4	-138.2	2,394.2	December 1991
209.1	76.2	285.3	0.3	2,831.9	-87.5	2,744.4	December 1992 ^{e)}
209.1	68.6	277.7	0.3	2,849.1	-110.3	2,738.9	January 1, 1993 ^{f)}
239.7	85.7	325.4	0.2	3,442.3	-221.8	3,220.5	December 1993
273.8	89.2	363.0	0.4	4,065.0	-181.8	3,883.2	December 1994
254.5	70.8	325.3	2.2	4,619.9	-335.2	4,284.8	December 1995 ^{g)}
233.7	62.9	296.6	7.4	4,972.8	-298.1	4,674.7	December 1996
240.2	68.6	308.7	31.3	5,569.9	-364.4	5,205.6	December 1997 ⁱ⁾
227.4	72.4	299.9	30.1	5,460.5	-443.0	5,017.5	January 1998 ^{h)}
224.1	73.6	297.7	27.8	5,478.9	-460.8	5,018.0	February
225.4	76.9	302.3	30.0	5,602.4	-497.9	5,104.4	March
227.5	79.4	306.9	34.7	5,543.5	-517.6	5,026.0	April
234.9	81.4	316.4	40.0	5,630.4	-526.3	5,104.2	May
241.1	83.7	324.8	36.8	5,681.9	-487.6	5,194.4	June
242.4	86.0	328.3	47.6	5,623.4	-478.6	5,144.9	July
247.8	86.6	334.4	55.0	5,938.2	-523.6	5,414.4	August
252.9	88.2	341.1	53.8	6,149.0	-599.3	5,549.7	September
254.5	89.5	344.0	52.6	6,164.4	-587.7	5,576.6	October
272.8	89.8	362.6	59.0	6,189.0	-589.8	5,599.3	November
267.0	93.8	360.8	56.7	6,342.4	-568.9	5,773.4	December ^{h)}
267.6	94.2	361.8	59.6	6,226.9	-651.6	5,575.2	January 1999 ^{h)}
268.8	94.6	363.4	61.7	6,194.6	-647.3	5,547.3	February ^{h)}
274.9	96.3	371.2	62.8	6,302.0	-640.4	5,661.7	March ^{h)}
281.0	98.0	379.0	63.2	6,111.3	-582.8	5,528.5	April ^{h)}
290.3	99.4	389.7	62.7	6,109.3	-591.8	5,517.5	May ^{h)}
299.8	103.4	403.2	69.3	5,918.6	-553.4	5,365.3	June ^{h)}
308.8	104.1	412.9	66.1	5,866.1	-537.1	5,329.1	July ^{h)}
320.8	103.8	424.5	68.5	5,857.5	-532.5	5,325.0	August ^{h)}
330.3	105.6	435.9	78.2	5,889.1	-584.6	5,304.6	September ^{h)}
340.0	108.2	448.3	78.1	5,851.4	-540.5	5,310.9	October ^{h)}
349.4	110.3	459.6	82.7	5,802.5	-570.2	5,232.3	November ^{h)}
13.0	1.5	14.5	1.2	196.8	17.3	214.0	Transactions
0.0	0.1	0.1	0.1	-6.4	10.8	4.4	Exchange rate changes
0.0	-0.3	-0.3	0.0	-6.4	1.6	-4.8	Other changes in volume
362.4	111.5	473.9	83.9	5,986.4	-540.5	5,445.9	December ^{h)}

Source: NBH

^{a)} Data of the National Bank of Hungary and credit institutions. The data from December 31, 1991 onwards also reflect the structural changes effected in the balance sheet of the NBH.

^{b)} Including the state debt due to valuation changes and including blocked foreign exchange deposits of the central budget. Includes, from April 30, 1991 on, the stock of old preferential housing loans taken over by the state; from December 31, 1992 the stock of government bonds issued in a value of Ft 48.3 billion against ruble claims taken over by the state; and from March 31, 1993 the stock of credit consolidation government bonds issued in the course of the credit consolidation process as well. Includes, from December 1994 the deposits of SPA, later HPSHC.

^{c)} Without the old preferential housing loans taken over by the state.

^{d)} Including the state debt due to valuation changes. Includes from December 31, 1992 on, the stock of government bonds issued in a value of Ft 48.3 billion against ruble claims taken over by the state, from January 1, 1993 on the stock of consolidation government bonds and from May 31.

^{e)} Data do not reflect the impact of credit consolidation.

^{f)} Due to changes in classification, from 1 January 1993, enterprise sector borrowing is not fully comparable with earlier data. From 1 January 1993 data reflect the impact of debtor and creditor consolidation.

^{g)} From 1 January 1995, credit figures include total interest and commission fallen due but unpaid. The majority of these increased claims on enterprises.

^{h)} Preliminary data.

ⁱ⁾ The following changes were made in comparison with end-1996: from early 1997 official rates are based on market prices, so balance sheet items denominated in foreign currency on 1 January are calculated at market rates, and CIB (Central-European International Bank) has been classified as resident bank.

^{j)} From January 1998 forex credits of small business have been removed from enterprise deposits and re-recorded as small business deposits.

^{k)} Blocked foreign exchange deposits of the central budget have been re-recorded under government net borrowing. The data series have been adjusted retrospectively.

BANKING SURVEY^{a)}

B) LIABILITIES

Ft billions

End of period	Net foreign liabilities ^{b),j)}	Broad money (M3)								
		Banknotes and coins outside banks			Enterprise deposits			Households and small enterprise deposits		
		Households ^{c)}	Other	Total	Forint deposits ^{d)}	Foreign exchange deposits ⁱ⁾	Total ^{d)}	Household deposits		
								Forint	Foreign exchange	Total
December 1989	1,019.4	146.8	33.8	180.6	166.2	13.7	179.9	252.9	20.5	273.4
December 1990	983.1	165.8	44.0	209.8	228.2	49.5	277.7	261.3	62.5	323.8
December 1991	1,024.4	189.0	71.2	260.2	258.6	65.9	324.5	302.5	129.5	432.0
December 1992	996.1	246.1	76.1	322.2	332.3	63.2	395.5	429.8	152.6	582.4
January 1, 1993 ^{d)}	995.5	246.1	76.1	322.2	361.0	63.2	424.2	429.8	152.6	582.4
December 1993	1,204.0	294.7	76.5	371.2	374.7	125.0	499.7	491.3	204.7	696.0
December 1994	1,604.1	333.2	77.4	410.6	406.2	112.1	518.3	572.7	293.7	866.4
December 1995	1,548.4	380.4	63.5	443.9	422.8	187.5	610.3	640.7	439.0	1,079.7
December 1996	1,323.6	425.1	72.6	497.7	545.2	204.6	749.8	857.9	484.8	1,342.7
December 1997	1,127.2	496.9	65.7	562.6	723.0	233.3	956.3	1,140.5	522.8	1,663.3
January 1998 ^{h)}	1,123.8	478.5	60.3	538.8	603.1	224.4	827.5	1,582.4	530.0	2,112.3
February	1,054.8	485.8	61.4	547.2	631.0	216.2	847.2	1,595.9	533.0	2,129.0
March	1,006.9	489.4	62.3	551.7	657.4	227.0	884.4	1,599.2	536.8	2,136.0
April	882.5	519.3	62.8	582.1	625.9	237.0	862.9	1,611.0	540.0	2,151.0
May	883.0	520.5	65.0	585.5	667.6	226.4	894.0	1,613.2	551.3	2,164.5
June	932.9	521.4	66.3	587.7	711.5	233.9	945.4	1,624.2	560.1	2,184.3
July	811.3	549.1	66.1	615.2	708.7	230.7	939.4	1,664.1	558.2	2,222.3
August	964.8	573.7	69.0	642.7	736.6	242.8	979.4	1,684.2	586.4	2,270.6
September	1,074.2	569.2	71.3	640.6	716.2	232.0	948.2	1,705.1	600.6	2,305.7
October	1,097.7	579.3	70.1	649.4	698.9	250.9	949.9	1,730.4	605.1	2,335.5
November	1,018.2	583.7	78.2	661.9	743.9	241.0	984.9	1,748.2	608.1	2,356.3
December ^{d)}	1,001.5	589.9	77.1	667.0	801.0	231.2	1,032.2	1,889.4	615.6	2,505.0
January 1999 ^{d)}	910.4	576.8	75.9	652.8	716.2	227.8	943.9	1,914.5	609.1	2,523.6
February ^{d)}	815.5	582.6	74.8	657.3	734.0	230.3	964.3	1,951.3	623.2	2,574.5
March ^{d)}	931.3	589.9	77.2	667.1	742.9	229.0	971.9	1,971.9	630.4	2,602.3
April ^{d)}	813.6	603.5	73.5	677.0	742.2	219.4	961.6	1,993.4	620.4	2,613.8
May ^{d)}	688.3	614.5	77.6	692.1	790.0	242.5	1,032.4	1,999.2	623.1	2,622.2
June ^{d)}	573.8	628.6	79.7	708.4	778.8	219.3	998.1	2,030.5	624.8	2,655.3
July ^{d)}	474.4	644.8	82.0	726.7	807.4	226.8	1,034.2	2,052.2	625.3	2,677.5
August ^{d)}	366.5	658.1	81.5	739.6	869.5	241.8	1,111.3	2,055.0	631.4	2,686.4
September ^{d)}	332.5	658.2	79.3	737.5	837.0	249.3	1,086.3	2,072.0	641.2	2,713.2
October ^{d)}	310.2	668.7	79.6	748.2	846.2	254.7	1,100.9	2,074.6	641.7	2,716.2
November ^{d)}	134.6	676.5	85.3	761.8	909.9	253.9	1,163.8	2,084.9	646.5	2,731.3
Transactions	-45.9	74.8	9.3	84.1	67.5	-19.3	48.2	82.4	-0.6	81.8
Exchange rate changes	0.9	0.0	0.0	0.0	0.0	0.9	0.9	0.0	2.5	2.5
Other changes in volume	-4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
December ^{d)}	84.9	751.3	94.5	845.9	977.4	235.4	1,212.9	2,167.3	648.4	2,815.7

BANKING SURVEY^{a)}

B) LIABILITIES

Ft billions

Broad money (continued) (M3)											Net domestic liabilities	End of period
Households and small enterprise deposits		Other deposits				Bonds and savings notes ^{e)}						
Deposits of small entrepreneurs ^{d,i)}	Total ^{d)}	Local governments	Non-profit institutions	Other	Total	Savings notes	Certificates of deposits	Bonds and other securities ^{e)}	Total	Grand total		
23.9	297.3	35.3	5.6	9.0	49.9	32.4	13.4	21.7	67.5	775.2	1,794.6	December 1989
36.6	360.4	43.6	10.8	12.0	66.4	35.6	33.6	25.9	95.1	1,009.4	1,992.5	December 1990
57.5	489.5	58.7	26.0	24.1	108.8	48.6	82.3	55.9	186.8	1,369.8	2,394.2	December 1991
61.8	644.2	73.5	46.6	23.8	143.9	74.5	91.0	77.0	242.5	1,748.3	2,858.7	December 1992
28.2	610.6	73.5	46.6	23.8	143.9	74.5	91.0	77.0	242.5	1,743.4	2,738.9	January 1, 1993 ^{d)}
33.2	729.2	74.7	53.3	30.6	158.6	83.2	91.7	82.9	257.8	2,016.5	3,220.5	December 1993
32.0	898.4	69.4	58.3	33.0	160.7	85.9	91.8	113.4	291.1	2,279.1	3,883.2	December 1994
34.1	1,113.8	80.7	67.9	37.5	186.1	86.9	..	295.4	382.3	2,736.4	4,284.8	December 1995
48.6	1,391.3	86.2	81.0	47.9	215.1	96.1	..	401.1	497.2	3,351.1	4,674.7	December 1996
82.8	1,746.1	115.8	73.8	69.6	259.2	108.9	..	376.4	485.2	4,009.4	5,205.6	December 1997 ^{e)}
84.0	2,196.4	98.3	76.0	31.8	206.1	..	..	39.7	39.7	3,808.5	5,017.5	January 1998 ^{h)}
85.9	2,214.8	97.8	77.6	33.0	208.4	..	..	37.5	37.5	3,855.1	5,018.0	February
84.8	2,220.8	112.4	80.0	47.8	240.2	..	..	35.0	35.0	3,932.1	5,104.4	March
84.0	2,235.0	96.4	80.9	44.3	221.6	..	..	34.3	34.3	3,935.9	5,026.0	April
90.6	2,255.1	94.7	80.2	62.5	237.4	..	..	33.8	33.8	4,005.8	5,104.2	May
91.7	2,275.9	93.1	80.4	64.7	238.2	..	..	32.9	32.9	4,080.1	5,194.4	June
92.8	2,315.2	84.4	81.4	52.6	218.5	..	..	32.7	32.7	4,121.0	5,144.9	July
101.5	2,372.1	87.8	81.6	56.5	226.0	..	..	32.3	32.3	4,252.5	5,414.4	August
98.2	2,403.9	113.3	81.1	51.6	246.0	..	..	31.3	31.3	4,270.0	5,549.7	September
99.0	2,434.4	99.0	86.2	50.4	235.5	..	..	30.7	30.7	4,299.9	5,576.6	October
105.3	2,461.6	93.4	85.1	59.9	238.5	..	..	29.2	29.2	4,376.1	5,599.3	November
98.5	2,603.6	123.5	88.8	75.0	287.3	..	..	29.6	29.6	4,619.7	5,773.4	December ^{f)}
101.2	2,624.8	108.4	88.5	76.3	273.2	..	..	29.5	29.5	4,524.2	5,575.2	January 1999 ^{f)}
105.7	2,680.2	104.4	92.7	69.2	266.3	..	..	29.8	29.8	4,597.9	5,547.3	February ^{f)}
102.9	2,705.2	115.0	96.5	57.4	268.9	..	..	30.9	30.9	4,644.0	5,661.7	March ^{f)}
104.8	2,718.7	101.1	95.8	66.3	263.2	..	..	31.3	31.3	4,651.8	5,528.5	April ^{f)}
111.6	2,733.8	113.7	96.9	64.3	274.9	..	..	37.3	37.3	4,770.5	5,517.5	May ^{f)}
111.8	2,767.1	91.8	101.0	65.9	258.7	..	..	37.9	37.9	4,770.2	5,365.3	June ^{f)}
113.1	2,790.6	90.6	102.4	59.0	252.0	..	..	41.1	41.1	4,844.6	5,329.1	July ^{f)}
122.8	2,809.1	98.9	103.0	55.0	257.0	..	..	41.5	41.5	4,958.5	5,325.0	August ^{f)}
118.3	2,831.5	119.2	99.6	56.5	275.3	..	..	41.6	41.6	4,972.2	5,304.6	September ^{f)}
123.2	2,839.4	108.3	105.6	56.9	270.9	..	..	41.4	41.4	5,000.8	5,310.9	October ^{f)}
131.3	2,862.6	97.3	101.7	59.2	258.1	..	..	51.3	51.3	5,097.6	5,232.3	November ^{f)}
6.8	73.7	28.9	3.0	22.3	54.2	..	..	-0.2	-0.2	259.9	214.0	Transactions
0.0	2.5	0.0	0.0	0.1	0.1	..	..	0.0	0.0	3.5	4.4	Exchange rate changes
0.0	0.0	0.0	0.0	0.0	0.0	..	..	0.0	0.0	0.0	-4.8	Other changes in volume
123.1	2,938.8	126.2	104.7	81.5	312.5	..	..	51.0	51.0	5,361.1	5,445.9	December ^{f)}

Source: NBH

^{a)} Data of the National Bank of Hungary, and credit institutions. The data from December 31, 1991 onwards also reflect the structural changes effected in the balance sheet of the NBH.

^{b)} At current exchange rate. They exclude, from 31 December, 1992, the stock of ruble claims to a value of Ft 48.3 billion taken over by the state.

^{c)} From 1 January, 1991 on, the households' deposits has been calculated according to a new method.

^{d)} Due to changes in classification, from 1 January, 1993 the stock of enterprise deposits, deposits of small enterprises and other deposits, thus the stock of broad money cannot be fully compared to earlier data.

^{e)} From January 1995 on, includes the stocks of certificates of deposits.

^{f)} Preliminary data.

^{g)} The following changes were made in comparison with end-1996: from early 1997 official rates are based on market prices, so balance sheet items denominated in foreign currency on 1 January are calculated at market rates, and CIB has been classified as resident bank.

^{h)} From January 1998 securities comprise only bonds and certificates of deposit. Securitised bank liabilities previously recorded as bank securities have been categorised as deposits of the sector.

ⁱ⁾ From January 1998 forex credits of small business have been removed from enterprises deposits and re-recorded as small deposits.

^{j)} Blocked foreign exchange deposits of the central budget have been re-recorded under government net borrowing. The data series have been adjusted retrospectively.

DEVELOPMENTS OF MONETARY AGGREGATES

Ft billions

End of period	M0 ^{c)} (Monetary base)	M1 ^{d)}	Quasi-money ^{f)}	M2 ^{f)} = M1 + quasi-money	Securities of financial institutions ^{g)}	M3 ^{h)}	Government paper outside the banking system MBH bond out- side banks	M4 = M3 + government pa- per outside the banking system and NBH bond outside banks
December 1990	338.9	517.5	396.8	914.3	95.1	1,009.4	-	-
December 1991	494.9	611.7	571.3	1,183.0	186.8	1,369.8	-	-
December 1992	593.9	810.0	695.8	1,505.8	242.5	1,748.3	71.8	1,820.1
January 1, 1993 ^{b)}	593.9	802.1	698.8	1,500.9	242.5	1,743.4	71.8	1,815.2
December 1993	599.8	901.9	856.8	1,758.7	257.8	2,016.5	207.0	2,223.4
December 1994	621.0	973.9	1,014.1	1,988.0	291.1	2,279.1	346.8	2,625.9
December 1995	749.6	1,036.3	1,317.8	2,354.1	382.3	2,736.4	549.1	3,285.5
December 1996	859.1	1,237.2	1,616.7	2,853.9	497.2	3,351.1	819.1	4,170.2
December 1997	994.4	1,528.3	1,996.0	3,524.3	485.2	4,009.5	1,278.4	5,287.9
January 1998 ^{c)}	996.0	1,336.5	-	-	39.7	3,812.0	1,396.0	5,207.9
February	981.6	1,376.9	-	-	37.5	3,857.4	1,470.3	5,327.8
March	995.2	1,434.5	-	-	35.0	3,932.1	1,525.8	5,458.0
April	1,038.2	1,425.8	-	-	34.3	3,938.7	1,586.1	5,524.8
May	1,045.2	1,480.3	-	-	33.8	4,008.4	1,591.6	5,599.9
June	1,052.9	1,528.1	-	-	32.9	4,080.0	1,592.4	5,672.4
July	1,093.9	1,537.9	-	-	32.7	4,120.9	1,647.9	5,768.8
August	1,112.6	1,595.6	-	-	32.3	4,252.5	1,660.0	5,912.5
September	1,115.4	1,601.4	-	-	31.3	4,270.0	1,700.8	5,970.8
October	1,133.2	1,588.2	-	-	30.7	4,299.9	1,707.3	6,007.2
November	1,149.8	1,638.2	-	-	29.2	4,376.1	1,752.1	6,128.2
December ^{a)}	1,160.9	1,789.2	-	-	29.6	4,619.7	1,727.9	6,347.6
January 1999 ^{a)}	1,150.5	1,622.5	-	-	29.5	4,524.2	1,762.2	6,286.4
February ^{a)}	1,158.1	1,645.2	-	-	29.8	4,597.9	1,831.8	6,429.7
March ^{a)}	1,180.6	1,679.2	-	-	30.9	4,644.0	1,884.8	6,528.8
April ^{a)}	1,198.2	1,686.8	-	-	31.3	4,651.8	1,923.7	6,575.5
May ^{a)}	1,219.3	1,765.7	-	-	37.3	4,770.5	1,952.5	6,723.0
June ^{a)}	1,239.2	1,772.5	-	-	37.9	4,770.2	1,986.7	6,756.9
July ^{a)}	1,271.2	1,810.2	-	-	41.1	4,844.6	2,058.9	6,903.5
August ^{a)}	1,277.6	1,885.8	-	-	41.5	4,958.5	2,128.5	7,087.0
September ^{a)}	1,285.7	1,876.2	-	-	41.6	4,972.2	2,184.8	7,157.0
October ^{a)}	1,317.9	1,890.3	-	-	41.4	5,000.8	2,199.9	7,200.7
November ^{a)}	1,323.2	1,956.8	-	-	51.3	5,097.6	2,225.2	7,322.8
December ^{a)}	1,439.0	2,125.1	-	-	51.0	5,361.1	2,180.4	7,541.5

Source: NBH

^{a)} Preliminary data.^{b)} Due to classification changes from 1 January 1993 enterprise and small entrepreneurs deposits – and the monetary aggregates as well – are not fully comparable to earlier data.^{c)} Monetary base M(0) = Notes and coin + banks deposit and other domestic currency accounts at the central bank. M0 is calculated from the month-end total of notes and coin and the average of banks reserve deposits and other domestic currency deposits with the central bank – the latter taken as the averages of the last two weeks and later monthly up to end-August. M0 does not include the stock of central bank remunerated deposits.^{d)} M1 = Currency in circulation + forint sights deposits held at banks.^{e)} Near money = sight deposits in foreign currencies + time deposits in domestic and foreign currencies.^{f)} From January 1998 Quasi-money and M2 money aggregates have not been published.^{g)} From January 1998 on, securities include only bonds and certificates of deposits. Saving notes and similar obligations are part of deposits of the sector concerned.^{h)} The Table XI/2 contains the components of the M3 monetary aggregate.

COMPOSITION OF M1 AND QUASI-MONEY

Ft billions

End of period	Banknotes and coins outside banks	Enterprise deposits	Deposits of small entrepreneurs	Household deposits	Deposits of local governments	Deposits of non-profit institutions	Interbank deposits	Transit items	(M1) total
December 1990	209.8	166.4	33.6	57.3	30.5	7.9	12.4	-0.4	517.5
December 1991	260.2	152.4	55.7	76.9	41.1	5.1	16.6	3.7	611.7
December 1992	322.2	229.5	57.5	111.4	50.6	21.2	14.4	3.2	810.0
1 January 1993 ^{b)}	322.2	255.4	23.7	111.4	50.6	21.2	14.4	3.2	802.1
December 1993	371.2	276.6	27.4	131.1	52.4	25.2	10.2	7.8	901.9
December 1994	410.6	293.0	28.9	138.8	56.8	29.5	11.4	4.9	973.9
December 1995	443.9	294.8	30.4	148.0	67.0	31.5	16.9	3.8	1,036.3
December 1996	497.7	361.7	40.9	199.4	64.0	37.1	35.1	0.0	1,237.2
December 1997	562.6	461.4	65.8	265.2	81.6	33.7	57.9	0.0	1,528.3
January 1997	538.8	355.5	66.1	266.7	65.3	35.2	9.0	0.0	1,336.5
February	547.2	380.0	68.1	269.8	65.4	36.4	10.0	0.0	1,376.9
March	551.7	405.9	67.1	277.3	77.2	36.1	19.2	0.0	1,434.5
April	584.3	371.0	65.9	290.6	61.7	35.8	16.5	0.0	1,425.8
May	587.6	403.3	72.9	290.5	60.5	36.8	28.7	0.0	1,480.3
June	587.7	439.8	72.7	296.1	64.2	37.0	30.5	0.0	1,528.1
July	615.2	419.5	73.7	316.5	55.7	37.7	19.6	0.0	1,537.9
August	642.6	444.2	81.8	313.1	61.2	37.2	15.5	0.0	1,595.6
September	640.6	431.0	78.5	318.3	83.9	37.0	12.2	0.0	1,601.4
October	649.4	423.0	78.4	319.9	67.4	39.5	10.5	0.0	1,588.2
November	661.9	454.8	85.2	313.1	66.3	38.0	18.9	0.0	1,638.2
December ^{a)}	666.6	526.1	78.1	357.7	98.7	41.0	20.6	0.0	1,789.2
January 1998 ^{a)}	652.9	411.0	80.3	333.5	82.4	40.1	22.2	0.0	1,622.5
February ^{a)}	657.3	415.1	81.9	351.9	76.5	41.2	21.3	0.0	1,645.2
March ^{a)}	667.1	416.6	79.7	370.2	85.9	45.1	14.7	0.0	1,679.2
April ^{a)}	677.0	411.3	80.1	385.4	70.2	42.0	20.7	0.0	1,686.8
May ^{a)}	692.1	457.6	86.4	382.5	84.7	41.7	20.7	0.0	1,765.7
June ^{a)}	708.4	444.6	86.1	406.0	64.0	44.4	19.0	0.0	1,772.5
July ^{a)}	726.7	459.7	86.3	414.1	62.3	43.3	17.8	0.0	1,810.2
August ^{a)}	739.6	510.2	95.1	410.0	72.5	43.8	14.5	0.0	1,885.8
September ^{a)}	737.5	473.5	92.7	422.5	89.8	42.9	17.2	0.0	1,876.2
October ^{a)}	748.2	484.2	96.4	410.9	80.7	48.3	21.6	0.0	1,890.3
November ^{a)}	761.8	533.4	103.0	417.3	74.7	46.5	20.2	0.0	1,956.8
December ^{a)}	845.9	568.1	90.8	445.4	98.7	47.6	28.7	0.0	2,125.1

Source: NBH

^{a)} Preliminary data.^{b)} Due to classification changes from 1 January 1993 enterprise and small entrepreneurs deposits – and the monetary aggregates as well – are not fully comparable to earlier data.

COMPOSITION OF M1 AND QUASI-MONEY

Ft billions

End of period	Deposits of enterprises	Deposits of small entrepreneurs	Household deposits	Deposits of local governments	Deposits of non-profit institutions	Interbank deposits	Quasi-money, total ^{b)}
December 1990	111.3	3.0	266.5	13.1	2.9	0.0	396.8
December 1991	172.1	1.8	355.1	17.6	20.9	3.8	571.3
December 1992	166.0	4.3	471.0	22.9	25.4	6.2	695.8
January 1, 1993 ^{a)}	168.8	4.5	471.0	22.9	25.4	6.2	698.8
December 1993	223.1	5.8	564.9	22.3	28.1	12.6	856.8
December 1994	225.3	3.1	727.6	12.6	28.8	16.7	1,014.1
December 1995	315.5	3.7	931.7	13.7	36.4	16.8	1,317.8
December 1996	388.1	6.4	1,143.3	22.2	43.9	12.8	1,616.7
January 1997	385.7	12.9	1,155.1	29.5	40.3	12.8	1,636.2
February	386.6	13.5	1,162.3	31.1	40.8	13.1	1,647.5
March	394.0	14.0	1,171.5	33.1	39.6	13.8	1,666.0
April	408.4	14.3	1,184.4	36.0	39.9	12.5	1,695.6
May	433.9	14.1	1,194.9	37.6	38.5	12.2	1,731.3
June	424.1	14.3	1,209.8	36.4	38.8	13.5	1,736.9
July	469.0	15.3	1,236.3	37.5	40.2	12.9	1,811.2
August	456.5	15.8	1,257.9	38.1	39.9	12.9	1,821.1
September	460.1	16.3	1,277.4	40.4	40.1	13.1	1,847.4
October	489.2	16.3	1,295.0	41.9	40.1	12.5	1,895.0
November	492.9	16.9	1,310.7	37.9	40.4	11.3	1,910.2
December	494.9	17.0	1,398.0	34.2	40.1	11.8	1,996.0

Source: NBH

^{a)} Due to classification changes from 1 January 1993 enterprise and small entrepreneurs deposits – and the monetary aggregates as well – are not fully comparable to earlier data.^{b)} From January 1998 the Quasi-money has not been published.

BANKNOTES AND COIN

Ft billions

End of period	A) Banknotes and coin in circulation			B) Banknotes and coin held by financial institutions	Currency stock total (A + B)
	Households	Other	Subtotal		
December 1991	189.0	71.2	260.2	26.5	286.7
December 1992	246.1	76.1	322.2	27.3	349.5
December 1993	294.7	76.5	371.2	29.5	400.7
December 1994	333.2	77.4	410.6	27.6	438.2
December 1995	380.4	63.5	443.9	37.6	481.5
December 1996	425.1	72.6	497.7	58.8	556.5
December 1997	496.9	65.7	562.6	58.7	621.3
January 1998	478.5	60.3	538.8	51.5	590.3
February	485.8	61.4	547.2	48.1	595.3
March	489.4	62.3	551.7	49.3	601.0
April	519.3	62.8	582.1	51.6	633.7
May	520.5	65.0	585.5	56.5	642.0
June	521.4	66.3	587.7	55.6	643.3
July	549.1	66.1	615.2	60.0	675.2
August	573.7	69.0	642.7	59.3	702.0
September	569.2	71.3	640.6	65.5	706.1
October	579.3	70.1	649.4	64.2	713.6
November	583.7	78.2	661.9	63.7	725.6
December	589.9	77.1	667.0	69.0	736.0
January 1999	576.8	75.9	652.8	60.8	713.6
February	582.6	74.8	657.3	61.9	719.2
March	589.9	77.2	667.1	63.5	730.6
April	603.5	73.5	677.0	69.0	746.0
May	614.5	77.6	692.1	71.8	763.9
June	628.6	79.7	708.4	72.1	780.5
July	644.8	82.0	726.7	73.3	800.0
August	658.1	81.5	739.6	69.0	808.6
September	658.2	79.3	737.5	69.7	807.2
October	668.7	79.6	748.2	69.5	817.7
November	676.5	85.3	761.8	71.2	833.0
December	751.3	94.5	845.9	110.0	955.9

Source: NBH

XII. SECURITIES BY INSTITUTIONAL SECTORS

GOVERNMENT SECURITIES HOLDINGS BY INSTITUTIONAL SECTOR, AT MARKET PRICES

At the end of quarters

Ft millions

	Government bonds						NBH bills ^{a)}					
	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.
			1999						1999			
Non-financing corporations	120,586	118,166	166,210	157,975	200,819	160,293	33,375	52,313	26,440	4,079	0	0
Central bank	512,388	406,260	450,475	453,382	436,385	445,207	0	0	0	0		
Credit institutions	695,615	870,246	788,327	797,469	766,969	768,540	81,245	129,679	43,902	5,352		
Investment funds	120,626	179,488	189,525	234,040	248,786	234,645	6,265	34,312	25,919	9,567		
Insurance companies, pension funds	199,093	281,876	345,856	396,208	448,623	496,259	11,808	43,288	22,642	4,904		
Other financial corporations	43,322	40,950	54,747	43,824	45,545	45,137	4,892	9,795	13,908	1,935		
Total financial corporations	1,571,044	1,778,820	1,828,929	1,924,922	1,946,308	1,989,788	104,209	217,073	106,371	21,758	0	0
Local government	36,225	46,959	55,596	52,977	72,866	58,754	7,081	16,321	8,709	2,520		
Other general government	13,108	6,211	1,393	539	742	1,972	75	157	60	0		
Total general government	49,334	53,170	56,989	53,515	73,608	60,726	7,155	16,479	8,769	2,520	0	0
Households	53,872	70,687	73,496	79,420	87,313	97,831	5,819	9,595	5,142	586	0	0
NPIs serving households	6,242	28,803	6,485	19,987	23,863	25,620	1,906	2,636	737	320	0	0
Rest of the world	78,747	299,269	315,040	336,981	351,553	467,762	0	0	0	0	0	0
Total	1,879,825	2,348,915	2,447,149	2,572,800	2,683,463	2,802,020	152,464	298,097	147,460	29,263	0	0

^{a)} There was no NBH bill outstanding in the market in September 1999.

Ft millions

	Treasury bills						Total					
	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.
			1999						1999			
Non-financing corporations	135,825	137,753	132,392	179,060	204,605	168,265	289,786	307,331	325,043	341,113	405,423	328,558
Central bank	6,523	0	0	0	0	0	518,910	406,260	450,475	453,382	436,385	445,207
Credit institutions	223,339	236,529	248,725	226,335	213,691	186,573	1,000,199	1,236,454	1,080,954	1,029,156	980,660	955,114
Investment funds	54,745	78,953	104,854	103,516	121,165	123,746	181,635	292,753	320,297	347,122	369,951	358,391
Insurance companies, pensions funds	76,038	92,567	99,708	122,711	125,215	148,993	286,938	420,731	468,206	523,823	573,838	645,252
Other financial corporations	54,127	32,907	40,791	48,290	36,956	33,348	102,341	98,651	109,445	94,049	82,501	78,485
Total financial corporations	414,771	440,956	494,076	500,852	497,027	492,659	2,090,024	2,454,849	2,429,377	2,447,532	2,443,335	2,482,447
Local government	51,505	37,059	56,009	61,839	54,804	55,261	94,811	100,339	120,314	117,335	127,670	114,015
Other general government	7,490	2,120	947	1,496	2,217	2,861	20,673	8,488	2,400	2,035	2,959	4,833
Total general government	58,995	39,179	56,956	63,335	57,021	58,122	115,484	108,827	122,714	119,370	130,629	118,848
Households	348,307	480,674	515,667	542,853	594,825	632,561	407,998	558,856	594,305	622,859	682,138	730,392
NPIs serving households	10,569	15,921	14,618	22,755	22,173	18,493	18,717	32,361	21,839	43,062	46,036	44,113
Rest of the world	0	0	0	0	0	0	78,747	299,269	315,040	336,981	351,553	467,762
Total	968,467	1,114,483	1,213,710	1,308,855	1,375,650	1,370,100	3,000,756	3,761,493	3,808,318	3,910,918	4,059,113	4,172,121

Source: NBH, Investment enterprises and credit institutions, GDMA, KELER.

HOLDINGS OF SHARES QUOTED ON THE BSE IN SECTORAL BREAKDOWN, AT MARKET VALUE

At the end of quarters

Ft millions

	Stock of shares					
	Dec. 1997	Dec. 1998	March	June	September	December
Non-financial corporations	106,440	80,377	85,689	103,269	106,488	157,473
Central bank	21,558	19,237	24,639	25,769	24,479	24,307
Investment funds	27,925	30,738	23,873	21,147	19,181	20,140
Insurance corps., pension funds	31,825	49,842	47,699	44,090	36,224	51,783
Other financial corporations	51,483	40,905	49,626	52,589	44,464	63,363
Total financial corporations	132,791	140,722	145,836	143,596	124,348	159,593
Local government	30,073	25,572	28,164	34,978	29,373	32,492
Other general government	397,623	315,078	329,358	298,805	263,782	255,987
Total general government	427,696	340,650	357,522	333,783	293,155	288,479
Households	283,000	301,983	256,140	241,638	226,224	239,816
Nonprofit inst. serving households	1,210	1,802	2,387	4,214	4,295	7,020
Rest of the world	2,051,663	2,104,179	2,064,466	2,459,851	2,513,599	3,238,096
Total	3,002,801	2,969,713	2,912,040	3,286,350	3,268,108	4,090,476

HOLDINGS OF SHARES QUOTED ON THE BSE IN SECTORAL BREAKDOWN, AT MARKET VALUE

At the end of quarters

Per cent

	Stock of shares					
	Dec. 1997	Dec. 1998	March	June	September	December
Non-financial corporations	3.5	2.7	2.9	3.1	3.3	3.8
Credit institutions	0.7	0.6	0.8	0.8	0.7	0.6
Investment funds	0.9	1.0	0.8	0.6	0.6	0.5
Insurance corps., pension funds	1.1	1.7	1.6	1.3	1.1	1.3
Other financial corporations	1.7	1.4	1.7	1.6	1.4	1.5
Total financial corporations	4.4	4.7	5.0	4.4	3.8	3.9
Local government	1.0	0.9	1.0	1.1	0.9	0.8
Other general government	13.2	10.6	11.3	9.1	8.1	6.3
Total general government	14.2	11.5	12.3	10.2	9.0	7.1
Households	9.4	10.2	8.8	7.4	6.9	5.9
Nonprofit inst. serving households	0.0	0.1	0.1	0.1	0.1	0.2
Rest of the world	68.3	70.9	70.9	74.9	76.9	79.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Investment enterprises and credit institutions, KELER.

CHANGES IN HOLDINGS OF SHARES QUOTED ON THE BSE

At the end of quarters

Ft billions

	Q1 1999				Q2 1999			
	Change in stock at market value	Of which:			Change in stock at market value	Of which:		
		Transactions	Revaluations	Other changes in stock		Transactions	Revaluations	Other changes in stock
Non-financial corporations	8,721	2,677	767	5,277	17,580	6,666	9,007	1,907
Central bank	5,432	4,026	-4,118	5,524	1,131	-520	1,287	363
Investment funds	-6,773	-5,580	-4,516	3,323	-2,725	-6,102	2,705	671
Insurance corps., pension funds	-2,178	1,174	-6,192	2,840	-3,609	-9,944	5,208	1,127
Other financial corporations	8,860	2,021	-2,929	9,768	2,963	1,056	-514	2,421
Total financial corporations	5,341	1,641	-17,755	21,455	-2,241	-15,510	8,686	4,583
Local government	-1,123	-1,093	-1,440	1,410	6,814	2,021	2,998	1,795
Other general government	14,333	-720	-35,218	50,270	-30,553	-75,743	38,380	6,810
Total general government	13,210	-1,813	-36,657	51,680	-23,738	-73,722	41,378	8,606
Households	-45,098	-20,013	-28,990	3,905	-14,502	-47,377	26,820	6,055
Nonprofit inst. serving households	584	865	-292	11	1,827	893	865	69
Rest of the world	-39,956	16,643	-111,557	54,958	395,385	135,250	165,467	94,668
Total	-57,199	0	-194,485	137,286	374,311	6,200	252,223	115,888

	Q3 1999				Q4 1999			
	Change in stock at market value	Of which:			Change in stock at market value	Of which:		
		Transactions	Revaluations	Other changes in stock		Transactions	Revaluations	Other changes in stock ³⁾
Non-financial corporations	3,219	-4,244	7,463	0	52,573	39,623	12,950	0
Central bank	-1,290	-2,616	1,325	0	-53	-1,551	1,498	0
Investment funds	-1,966	-2,909	943	0	1,102	-2,446	3,548	0
Insurance corps., pension funds	-7,867	-8,592	726	0	15,856	8,008	7,848	0
Other financial corporations	-8,125	-4,806	-3,319	0	19,248	9,567	9,681	0
Total financial corporations	-19,248	-18,923	-325	0	36,153	13,578	22,575	0
Local government	-5,605	-4,824	-782	0	3,102	617	2,485	0
Other general government	-35,023	-9,010	-26,013	0	-7,916	-51,036	43,121	0
Total general government	-40,629	-13,834	-26,795	0	-4,814	-50,419	45,606	0
Households	-15,414	-19,595	4,180	0	15,239	-27,958	43,196	0
Nonprofit inst. serving households	81	57	25	0	2,751	1,565	1,187	0
Rest of the world	53,748	59,337	-5,589	0	720,296	24,311	695,985	0
Total	-18,243	2,797	-21,041	0	822,197	700	821,497	0

Forrás: Befektetési vállalkozások és hitelintézetek, KELER.

³⁾ There was not changes in other volume.

INVESTMENT FUND CERTIFICATES IN SECTORAL BREAKDOWN AT NET ASSET VALUE
At the end of quarter

	Net asset value											
	Ft millions						Percentage share					
	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.	Dec. 1997	Dec. 1998	March	June	Sep.	Dec.
Credit institutions	4,244	7,083	7,380	6,026	6,148	7,869	1.7	2.1	2.0	1.5	1.5	1.8
Other sectors of the economy	35,865	55,165	66,051	64,786	69,258	66,396	14.2	16.3	17.8	16.4	17.0	14.8
Households	206,205	268,117	290,955	315,956	323,953	365,018	81.3	79.4	78.3	80.1	79.7	81.6
Rest of the world	7,205	7,253	7,253	7,652	7,158	7,877	2.8	2.1	2.0	1.9	1.8	1.8
Total	253,519	337,618	371,640	394,420	406,517	447,159	100.0	100.0	100.0	100.0	100.0	100.0

Source: Investment fund management companies.

XIII. INTEREST RATES

LENDING AND DEPOSIT RATES OF THE NATIONAL BANK OF HUNGARY^{a)}

Types of credits and deposits	Interest rate (p. a.), per cent									
	1 Jan.	1 Jan.	16 Jan.	1 Apr.	8 Apr.	14 Apr.	1 June	1 Aug.	22 Sept.	15 Dec.
	1998									
I. NBH refinancing rates										
Base rate	20,50	20,00	20,00	20,00	19,50	19,50	19,00	18,00	18,00	18,00
1. Long-term refinancing credits at base rate										
a) Credits financing the state budget since 1991 ^{b)}	20,50	20,00	20,00	20,00	19,50	19,50	19,00	18,00	18,00	18,00
b) Liquidity-fund credit for the state budget ^{b)}	20,50	20,00	20,00	20,00	19,50	19,50	19,00	18,00	18,00	18,00
c) Financial institutions refinancing credits maturing over one year	20,50	20,00	20,00	20,00	19,50	19,50	19,00	18,00	18,00	18,00
d) Refinancing credits provided against foreign exchange deposits for investment purposes, over one year										
– provided the maturity is more than 15 months but less than 3 years	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}	... ^{f)}
– provided the maturity is at least 3 years (equals to the base rate)	–	–	–	–	–	–	–	–	–	–
– maturity is minimum 5 years for exclusively financing of projects (equals to the base rate)	20,50	20,00	20,00	20,00	19,50	19,50	19,00	18,00	18,00	18,00
2. For rediscounting bills of exchange if the period between rediscounting and maturity ^{c)} is 0–90 days	19,50 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	19,00 ^{b)}	20,00 ^{b)}	20,00 ^{b)}
3. Preferential refinancing										
a) Export credits ^{d)}										
– maturing within 180 days	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00
– maturing over 180 days but within one year	11,00	11,00	11,00	11,00	11,00	11,00	11,00	11,00	11,00	11,00
– maturing over one year	12,00	12,00	12,00	12,00	12,00	12,00	12,00	12,00	12,00	12,00
b) Discounting negotiable export documents ^{d)}	7,50	7,50	7,50	7,50	7,50	7,50	7,50	7,50	7,50	7,50
c) Forint loans for export prefinancing ^{e)}	–	–	–	–	–	–	–	–	–	–
d) Loans disbursed under the tourism facility (70% of base rate) ^{f)}	14,35	14,35	14,35	14,35	13,65	13,65	13,30	12,60	12,60	11,90
e) Loans to refinance Existence loans	3,00	3,00	3,00	3,00	3,00	3,00	3,00	3,00	3,00	3,00
f) Loans to refinance Start and Japanese loans (75% of base rate)	15,375	15,000	15,000	15,000	14,625	14,625	14,25	13,50	13,50	12,75
g) Loans for those re-starting or starting their careers (75% of base rate) ^{f)}	15,375	15,000	15,000	15,000	14,625	14,625	14,25	13,50	13,50	12,75
4. Other credits										
Interest on state debt incurred before 1991 ^{b)}	8,05	8,05	8,05	8,05	8,05	8,05	8,05	8,05	8,05	8,05
II. Interest rates on voluntary deposits held with the NBH										
– Interest rates on not official deposits	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
– Interest rates paid to insurance companies and other non-financial institutions, fixed at least for one month	–	–	–	–	–	–	–	–	–	–
III. Interest rates on the state liquidity fund^{b)}	–	–	–	–	–	–	–	–	–	–
IV. Account of the treasuryⁱ⁾	19,75	19,75	19,75	19,75	18,875	18,625	18,375	17,500	18,00	17,00
V. Deposits of budgetary institutionsⁱ⁾										
– Fixed at least for one month	–	–	–	–	–	–	–	–	–	–
VI. The highest central bank penalty rate of the NBH	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00	10,00

Source: NBH

^{a)} These interest conditions do not apply to the interest rates evolving at the credit auctions or at the interbank money market intermediated by the central bank.

^{b)} According to Act IV of 1994 (Amendment of Act LX of 1991 on the National Bank of Hungary and certain rules pertaining to the management of the central budget).

^{c)} Rediscounting rate.

^{d)} According to the interest conditions valid until May 1, 1991 until the repayment of the outstanding credit except where the change was stipulated.

^{e)} The facility was discontinued as of April 1, 1993. New contracts cannot be concluded. Contracts made prior to April 1, 1993 continue to be valid according to the original conditions.

^{f)} New contracts cannot be concluded.

^{g)} Provided the maturity is more than 15 months, the footnote g) is valid as of September 29, 1994.

^{h)} On fixing the rediscounting rate, the standard is the mathematical average of the average yields resulting from the last four 3-month discount treasury bill auctions preceding the rediscounting rate determination. The rediscounting rate is revised by the NBH once every three months.

ⁱ⁾ Pursuant to Act CXLVI. of 1997, from 1 January 1998 the interest rate remunerated on Treasury account deposits is identical with the central bank one-month reverse repo rate. Annex XIII/1 contains interest rates paid on the account of the Treasury only that time of interest rate policy changes in the period. The full time series, starting from 1 January 1998, is in the column showing one-month reverse repo rates in Annex XIII/2.

Annex XIII/1 (continued)

LENDING AND DEPOSIT RATES OF THE NATIONAL BANK OF HUNGARY^{a)}

Interest rate (p. a.), per cent

1 Jan.	8 Jan.	1 Feb.	1 June	4 Nov.	15 Nov.	22 Dec.	Types of credits and deposits
1999							
17.00	17.00	16.00	15.50	15.50	15.00	14.50	I. NBH refinancing rates
							Base rate
							1. Long-term refinancing credits at base rate
17.00	17.00	16.00	15.50	15.50	15.00	14.50	a) Credits financing the state budget since 1991 ^{b)}
17.00	17.00	16.00	15.50	15.50	15.00	14.50	b) Liquidity-fund credit for the state budget ^{b)}
17.00	17.00	16.00	15.50	15.50	15.00	14.50	c) Financial institutions refinancing credits maturing over one year
...	..	...	...	...	...	...	d) Refinancing credits provided against foreign exchange deposits for investment purposes, over one year – provided the maturity is more than 15 months but less than 3 years
17.00	17.00	16.00	15.50	15.50	15.00	14.50	– provided the maturity is at least 3 years (equals to the base rate)
17.00	17.00	16.00	15.50	15.50	15.00	14.50	– maturity is minimum 5 years for exclusively financing of projects (equals to the base rate)
20.00 ^{b)}	20.00 ^{b)}	20.00 ^{b)}	20.00 ^{b)}	20.00 ^{b)}	20.00 ^{b)}	20.00 ^{b)}	2. For rediscounting bills of exchange if the period between rediscounting and maturity ^{c)} is 0–90 days
							3. Preferential refinancing
10.00	10.00	10.00	10.00	10.00	10.00	10.00	a) Export credits ^{d)}
11.00	11.00	11.00	11.00	11.00	11.00	11.00	– maturing within 180 days
12.00	12.00	12.00	12.00	12.00	12.00	12.00	– maturing over 180 days but within one year
7.50	7.50	7.50	7.50	7.50	7.50	7.50	– maturing over one year
–	–	–	–	–	–	–	b) Discounting negotiable export documents ^{d)}
11.90	11.90	11.20	10.85	10.85	10.50	10.15	c) Forint loans for export prefinancing ^{e)}
3.00	4.00	3.00	3.00	3.00	3.00	3.00	d) Loans disbursed under the tourism facility (70% of base rate) ^{f)}
12.75	12.75	12.00	11.625	11.625	11.25	10.875	e) Loans to refinance Existence loans
12.75	12.75	12.00	11.625	11.625	11.25	10.875	f) Loans to refinance Start and Japanese loans (75% of base rate)
8.22	8.22	8.22	8.22	8.22	8.22	8.22	g) Loans for those re-starting or starting their careers (75% of base rate) ^{f)}
5.00	5.00	5.00	5.00	5.00	5.00	5.00	4. Other credits
–	–	–	–	–	–	–	Interest on state debt incurred before 1991 ^{b)}
–	–	–	–	–	–	–	II. Interest rates on voluntary deposits held with the NBH
–	–	–	–	–	–	–	– Interest rates on not official deposits
–	–	–	–	–	–	–	– Interest rates paid to insurance companies and other non-financial institutions, fixed at least for one month
16.00	16.00	16.00	15.50	15.50	15.00	14.50	III. Interest rates on the state liquidity fund^{b)}
–	–	–	–	–	–	–	IV. Account of the treasury^{b)}
10.00	10.00	10.00	10.00	10.00	10.00	10.00	V. Deposits of budgetary institutions^{b)}
–	–	–	–	–	–	–	– Fixed at least for one month
10.00	10.00	10.00	10.00	10.00	10.00	10.00	VI. The highest central bank penalty rate of the NBH

Source: NBH

^{a)} These interest conditions do not apply to the interest rates evolving at the credit auctions or at the interbank money market intermediated by the central bank.^{b)} According to Act IV of 1994 (Amendment of Act LX of 1991 on the National Bank of Hungary and certain rules pertaining to the management of the central budget).^{c)} Rediscounting rate.^{d)} According to the interest conditions valid until May 1, 1991 until the repayment of the outstanding credit except where the change was stipulated.^{e)} The facility was discontinued as of April 1, 1993. New contracts cannot be concluded. Contracts made prior to April 1, 1993 continue to be valid according to the original conditions.^{f)} New contracts cannot be concluded.^{g)} Provided the maturity is more than 15 months, the footnote g) is valid as of September 29, 1994.^{h)} On fixing the rediscounting rate, the standard is the mathematical average of the average yields resulting from the last four 3-month discount treasury bill auctions preceding the rediscounting rate determination. The rediscounting rate is revised by the NBH once in every three months.ⁱ⁾ Based on Law CXLVI of 1997, from 1 January 1998 the NBH remunerates interest on the account of the Treasury equal to the interest rate employed in one-month reverse repo agreements, or in the absence of such, the central bank base rate. Annex VI/5 contains interest rates paid on the account of the Treasury only at the time of interest rate policy changes in the period. The full time series, starting from 1 January 1998, is in the column showing one-month reverse repo rates in Annex XII/2.

**CENTRAL BANK INTEREST RATES ON REPURCHASE AGREEMENTS (REPO INTEREST RATES)
AND MONEY MARKET-DEPOSITS RATES**

Period	Interest rate (p. a.), per cent						Supplementary repo ^{a)}	
	Overnight	1 week	2 weeks	1 month	3 months			
	<i>Repo interest rates</i>							
24 January, 1997	27.50	27.50	–	–	–	35.00		
17 February	27.00	27.00	–	–	–	35.00		
26 April	26.75	26.75	–	–	–	35.00		
6 June	26.25	26.25	–	–	–	35.00		
7 July	26.00	26.00	–	–	–	35.00		
30 September	25.75	25.75	–	–	–	35.00		
1 December	25.25	25.25	–	–	–	35.00		
6 February, 1998	25.00	25.00	–	–	–	35.00		
2 March	24.75	24.75	–	–	–	35.00		
23 March	24.375	24.375	–	–	–	35.00		
14 April	24.125	24.125	–	–	–	35.00		
25 May	23.875	23.875	–	–	–	35.00		
15 June	23.50	23.50	–	–	–	35.00		
10 July	23.00	23.00	–	–	–	35.00		
3 August	22.50	22.50	–	–	–	35.00		
15 August ^{e)}	20.50	–	–	–	–	28.00		
22 September	21.50	–	–	–	–	28.00		
11 November	21.00	–	–	–	–	28.00		
24 November	20.75	–	–	–	–	28.00		
11 December	19.75	–	–	–	–	28.00		
21 December	19.50	–	–	–	–	28.00		
8 January, 1999	18.50	–	–	–	–	28.00		
9 April	18.00	–	–	–	–	28.00		
28 April	17.75	–	–	–	–	28.00		
14 June	17.25	–	–	–	–	26.00		
13 July	16.75	–	–	–	–	26.00		
4 November	16.50	–	–	–	–	25.00		
17 December	16.25	–	–	–	–	25.00		
22 December	16.25	–	–	–	–	23.00		
	<i>Reverse repo interest rates</i>						<i>Money market-deposit rates^{b)}</i>	
						<i>6-month</i>	<i>12-month</i>	
14 January, 1997	17.50	21.75	–	22.25	–	21.25	–	
24 January	17.50	21.50	–	22.00	–	20.75	–	
17 February	17.50	21.00	–	21.50	–	21.00	20.50	
24 March	17.50	21.00	–	21.50	–	20.75	20.50	
26 April	17.25	20.75	–	21.25	–	21.00	20.50	
6 June	17.25	20.25	–	20.75	–	21.00	20.50	
13 June	17.25	20.25	–	20.75	–	20.50	20.25	
7 July	17.25	20.00	–	20.50	–	–	–	
30 September	14.50	19.75	–	20.25	–	–	–	
6 October ^{c)}	14.50	19.75	–	20.25	–	–	–	
1 December	14.50	19.25	–	19.75	–	–	–	
1 January, 1998 ^{d)}	14.50	19.00	–	19.50	–	–	–	
6 February	14.50	19.00	–	19.50	–	–	–	
2 March	14.50	18.75	–	19.25	–	–	–	
23 March	14.50	18.375	–	18.875	–	–	–	
14 April	14.50	18.125	–	18.625	–	–	–	
25 May	14.50	17.875	–	18.375	–	–	–	
15 June	14.50	17.50	–	18.00	–	–	–	
10 July	14.50	17.00	–	17.50	–	–	–	
3 August	14.50	16.50	–	17.00	–	–	–	
15 August ^{e)}	13.50	–	–	17.00	–	–	–	
22 September	14.50	–	–	18.00	–	–	–	
11 November	14.50	–	–	17.50	–	–	–	
24 November	14.25	–	–	17.50	–	–	–	
11 December	14.25	–	–	17.00	–	–	–	
21 December	14.00	–	–	16.75	–	–	–	
8 January, 1999	13.50	–	–	16.00	–	–	–	
1 March ^{f)}	13.50	–	16.00	–	–	–	–	
9 April	13.00	–	15.50	–	–	–	–	
28 April	12.75	–	15.25	–	–	–	–	
14 June	12.75	–	15.00	–	–	–	–	
13 July	12.75	–	14.75	–	–	–	–	
4 November	12.55	–	14.50	–	–	–	–	
17 December	12.25	–	14.25	–	–	–	–	

Source: NBH

^{a)} One-day supplementary repo facility, based on individual arrangements, above the limit.

^{b)} Fixed-term, six and twelve-month non-callable deposit instrument for financial institutions.

^{c)} On 6 October 1997 the NBH phased out its Lombard-like reverse repo facility and introduced a fixed-term, non-callable deposit instrument for financial institutions instead of Lombard-like reverse repo facility with the same maturities and rates.

^{d)} Based on Law CXLVI of 1997, from 1 January 1998 the NBH remunerates interest on the account of the Treasury equal employed in one-month reverse repo agreements.

^{e)} As a consequence of modifications to the tools of monetary management, from 15 August 1998 the Bank has ceased to deal in the one-week repo and reverse repo facilities and changed over from continuous to twice-per-week operations in the one-month deposit instrument.

^{f)} The Bank reduced the term of its 28-day deposit facility to 14 days as of 1 March 1999. Also, it has ceased to quote the overnight and one-month reverse repo rates, suspended in October 1997.

Annex XIII/3

**REQUIRED RESERVE RATIO AND INTEREST REMUNERATED ON
REQUIRED RESERVES**

Per cent

Period	Reserve ratio ^{a)}	
	General	Other ^{b)}
15 September 1991	16.00	—
1 January 1992	16.00	10.00
16 January 1993	14.00	7.00
1 March 1994	13.00	6.00
1 May	12.00	6.00
1 February 1995	14.00	7.00
1 April	15.00	7.50
1 May	16.00 ^{c)}	8.00 ^{c)}
1 June	17.00 ^{d)}	8.50 ^{d)}
1 February 1996	16.80 ^{d)}	8.50 ^{d)}
1 March	16.00 ^{d)}	8.50 ^{d)}
1 April	15.30 ^{d)}	8.50 ^{d)}
16 April	13.30	8.50
1 May	12.70	8.50
1 June	12.00	8.50
1 January 1997	12.00 ^{e)}	8.00 ^{e)}

Per cent

Period	Interest remunerated on required reserves for	
	Forint liabilities	Foreign currency liabilities
1 July 1991	15.4	34.8
1 October	15.4	35.2
15 October	11.0	29.0
16 March 1992	11.0	22.0
27 May	9.0	20.0
24 June	8.0	18.0
5 October	3.0	12.0
1 January 1993	2.0	11.0
1 March 1994	2.0	18.0
15 June	6.0	18.0
1 October	8.0	18.0
1 February 1995	12.0	24.0
16 April	14.0	29.0
16 May	15.5	29.5
16 September	15.5	28.0
16 November	15.5	26.0
1 February 1996	15.5	24.0
1 March	14.5	21.0
1 September	14.0	19.5
16 October	14.0	18.0
16 January 1997	14.0	17.0
16 February	14.0	16.0
16 June	13.5	15.0
15 September	13.0	14.0
16 December	12.5	13.0
16 February 1998	12.0	12.0
1 April	11.0	11.0
1 August	10.0	10.0
1 February 1999	9.0 ^{f)}	9.0
1 July	8.5	8.5
22 December	8.25	8.25

Source: NBH

^{a)} Required reserves to be built on domestic and foreign currency liabilities.^{b)} Reserve requirement imposed on investment banks until end-1996, and on home savings institutions and the Hungarian Development Bank from 1 January 1997.^{c)} Includes also 1% of required reserves to be built in government securities (0.5% in the case of entities in a) and b)).^{d)} Includes also 2% of required reserves to be built in government securities (1% in the case of entities in a) and b)).^{e)} According to regulations in effect since 1 September 1998, all of a credit institution's domestic and foreign currency liabilities are subject to reserve maintenance requirements (including liabilities arising from quasi sale and repurchase agreements). Excluded liabilities are the following:

- shareholders' equity, provisions and subordinated loan capital,
- liabilities from domestic credit institutions with operational licence, the NBH and from abroad, as well as accruals and deferrals linked with them, and
- funds collected through issuance of mortgage bonds with maturity of at least five years.

MONTHLY INTEREST RATES OF INTERBANK MONEY MARKET^{a)}

Interest rate (p.a.), per cent

Month	1–2 days			3–7 days			1 week–2 weeks			2 weeks–1 month		
	Min.	Max.	Average	Min.	Max.	Average	Min.	Max.	Average	Min.	Max.	Average
December 1993	7.0	23.5	21.8	3.0	23.6	21.1	18.5	22.8	22.1	11.0	24.0	21.8
December 1994	20.0	65.0	30.8	10.0	56.0	31.2	28.5	31.8	31.0	30.5	31.9	31.3
December 1995	19.5	33.8	28.8	19.0	34.5	28.0	27.3	32.1	29.5	1.0	30.8	27.8
December 1996	17.5	28.3	23.3	18.0	27.5	23.2	21.8	27.5	23.3	22.0	24.8	23.2
December 1997	16.0	29.3	20.4	18.3	22.0	19.4	18.9	19.8	19.5	19.4	20.3	19.7
January 1998	17.9	29.3	20.4	18.3	22.0	19.4	19.3	19.9	19.5	19.4	20.0	19.7
February	17.5	20.6	19.1	17.6	20.0	19.0	18.5	19.7	19.2	19.0	19.9	19.6
March	14.5	20.8	18.6	17.2	20.1	18.6	18.6	19.2	18.9	18.2	19.5	19.1
April	14.5	22.5	18.3	17.2	22.0	18.5	18.4	18.6	18.5	17.9	18.9	18.7
May	14.5	23.9	18.3	17.2	23.9	18.4	17.9	18.8	18.3	18.0	19.6	18.6
June	14.5	19.6	17.5	16.3	18.5	17.6	17.6	18.1	17.9	17.9	18.5	18.1
July	14.5	18.6	17.5	16.4	18.3	17.4	17.0	17.8	17.7	17.5	18.4	17.7
August	13.3	17.5	16.0	13.5	17.0	16.2	16.3	16.9	16.8	16.2	17.5	17.0
September	13.5	22.5	17.5	15.5	22.5	18.0	16.5	21.5	17.5	16.8	21.0	17.4
October	14.0	22.0	17.3	14.5	21.8	17.1	15.5	21.6	17.8	17.0	20.9	18.4
November	14.0	22.0	19.7	14.6	21.5	19.7	16.3	21.4	19.0	17.5	21.3	18.3
December	13.0	18.5	15.8	14.0	18.3	16.3	15.8	17.8	16.7	16.8	18.6	17.3
January 1999	13.5	21.8	17.9	13.8	21.5	17.7	16.0	20.0	16.9	15.9	18.3	16.7
February	13.3	16.3	14.8	13.5	16.2	14.8	14.3	16.5	15.2	15.9	16.5	16.0
March	13.3	16.9	15.6	14.3	16.9	15.7	15.0	16.5	15.9	15.0	16.3	16.0
April	12.3	16.8	15.3	12.8	16.8	15.5	14.9	16.5	15.6	15.1	16.0	15.6
May	12.8	15.6	14.6	12.8	15.5	14.7	14.8	15.4	15.2	15.0	15.9	15.1
June	12.8	15.5	14.7	12.8	15.5	15.0	15.0	15.4	15.1	14.9	15.6	15.1
July	12.5	15.4	14.5	12.8	15.4	14.7	14.8	15.2	14.9	14.7	15.4	14.9
August	12.5	15.0	14.1	12.2	14.9	14.3	14.5	14.8	14.7	14.4	15.4	14.7
September	12.2	27.3	14.1	12.9	15.4	14.5	14.6	14.8	14.8	13.0	15.4	14.6
October	12.3	17.0	14.6	12.9	15.4	14.6	14.8	14.9	14.8	14.6	15.4	14.7
November	–	14.8	13.8	12.5	14.8	13.9	14.0	14.8	14.5	14.3	16.8	14.8
December	11.0	14.7	13.2	12.3	14.5	13.3	14.2	14.6	14.4	13.9	14.9	14.4

Annex XIII/4 (continued)

MONTHLY INTEREST RATES OF INTERBANK MONEY MARKET^{a)}

Interest rate (p. a.), per cent

1 month–3 months			3 months–6 months			6 months–1 year			Over one year			Month
Min.	Max.	Average	Min.	Max.	Average	Min.	Max.	Average	Min.	Max.	Average	
23.0	24.5	23.8	11.0	25.1	23.9	26.0	26.0	26.0	23.5	23.5	23.5	December 1993
31.0	32.0	31.5	31.9	32.3	32.0	–	–	–	–	–	–	December 1994
25.0	31.0	27.6	–	–	–	31.0	31.0	31.0	–	–	–	December 1995
21.5	24.5	22.2	22.0	22.0	22.0	23.7	23.7	23.7	–	–	–	December 1996
18.6	20.1	19.8	19.0	20.6	19.2	20.0	20.0	20.0	–	–	–	December 1997
19.1	19.9	19.6	17.7	21.0	18.7	–	–	–	20.0	20.0	20.0	January 1998
18.6	19.6	19.1	18.0	19.4	18.8	18.9	18.9	18.9	–	–	–	February
18.1	19.3	18.5	18.3	19.4	18.7	18.4	18.7	18.6	–	–	–	March
17.7	19.0	18.2	17.3	18.2	17.7	–	–	–	–	–	–	April
17.0	18.5	17.9	17.4	17.4	17.4	–	–	–	–	–	–	May
17.1	18.2	17.7	17.0	17.6	17.3	17.2	17.2	17.2	–	–	–	June
17.0	17.9	17.4	16.6	17.5	17.1	–	–	–	–	–	–	July
16.0	17.0	16.6	16.0	16.4	16.2	16.6	16.6	16.6	–	–	–	August
16.3	20.6	17.4	16.1	20.6	17.2	16.1	20.6	17.2	–	–	–	September
17.6	20.4	18.7	17.8	20.0	18.8	–	–	–	–	–	–	October
17.9	19.0	18.2	17.9	18.5	18.0	–	–	–	–	–	–	November
16.4	18.5	17.6	16.5	18.5	17.5	–	–	–	20.0	20.0	20.0	December
15.8	17.0	16.4	15.5	16.3	15.9	–	–	–	–	–	–	January 1999
15.3	16.1	15.6	15.1	15.4	15.2	–	–	–	–	–	–	February
15.5	16.6	15.8	15.3	15.9	15.5	15.3	15.6	15.5	–	–	–	March
15.3	16.1	15.6	15.1	15.6	15.3	15.0	15.0	15.0	–	–	–	April
14.9	16.3	15.2	14.9	15.3	15.0	15.0	15.2	15.1	–	–	–	May
14.9	15.5	15.1	14.8	15.3	15.0	15.5	15.5	15.5	–	–	–	June
14.6	15.5	15.0	14.5	15.3	14.7	14.7	15.5	15.0	–	–	–	July
14.5	15.0	14.7	14.5	15.2	14.7	14.4	15.2	14.6	–	–	–	August
14.5	15.2	14.8	14.7	15.0	14.8	–	–	–	–	–	–	September
14.1	15.3	14.8	14.1	15.2	14.7	14.3	15.2	14.9	14.7	14.7	14.7	October
14.4	15.6	14.8	14.0	14.7	14.3	13.7	14.9	14.4	–	–	–	November
13.6	15.4	14.3	13.5	14.8	13.9	–	–	–	–	–	–	December

Source: NBH

^{a)} Interbank money flows intermediated by the NBH are also included.

**MARKET INTEREST RATES
BANKS TOTAL²⁾**

A) LENDING RATES

Interest rate (p.a.), per cent

Period	Maturing within one year			Maturing over one year			Discounted bills of exchange		
	Min.	Max.	Weighted average	Min.	Max.	Weighted average	Min.	Max.	Weighted average
December 1991	26.0	45.0	35.5	23.5	46.0	34.3	24.0	47.9	36.1
December 1992	17.0	39.0	28.8	20.0	40.0	25.4	22.0	38.0	27.4
December 1993	17.8	37.0	25.6	19.5	36.0	25.2	20.0	32.0	25.1
December 1994	18.5	41.0	29.7	19.0	38.5	26.7	26.5	35.5	29.8
December 1995	23.0	41.5	32.2	28.0	40.0	31.6	27.9	38.3	31.4
December 1996	21.5	35.0	24.0	19.3	38.7	25.6	20.1	34.9	22.6
December 1997	13.4	34.2	20.8	15.8	28.5	21.7	17.5	27.9	21.0
January 1998	10.9	32.0	20.3	8.8	28.5	21.1	17.9	31.0	21.1
February	15.4	31.7	20.2	17.0	32.0	20.3	18.2	27.8	20.8
March	15.4	31.7	20.3	17.0	32.0	21.3	18.2	27.8	21.1
April	14.6	31.3	19.7	14.6	28.5	20.5	18.3	22.5	21.1
May	16.6	31.5	19.4	16.6	31.5	20.3	18.2	27.7	23.4
June	14.3	31.5	18.8	14.3	30.5	19.4	18.5	28.2	20.6
July	14.6	31.4	18.8	15.3	30.5	19.9	16.7	26.1	19.0
August	13.5	30.5	18.3	12.6	30.5	18.9	16.5	25.5	19.4
September	9.4	28.1	18.3	13.5	30.5	20.3	16.8	25.0	19.9
October	9.5	29.8	19.2	11.9	30.5	19.7	18.7	25.0	19.3
November	9.5	30.5	19.1	15.0	30.5	20.4	17.2	26.0	19.1
December	8.7	29.5	18.8	6.3	30.5	18.8	16.2	25.0	19.4
January 1999	8.4	27.0	17.8	8.8	30.5	18.8	16.2	26.0	18.9
February	8.2	31.0	17.1	8.7	30.5	18.3	15.6	26.0	16.7
March	8.3	26.3	17.0	10.2	28.5	18.0	14.9	24.0	16.7
April	8.0	29.5	16.8	9.8	30.0	17.9	15.6	24.1	17.5
May	8.0	26.0	16.6	9.8	30.0	17.2	15.5	24.0	16.7
June	7.8	29.0	16.2	9.6	28.5	17.2	14.8	23.5	16.5
July	7.7	26.3	16.0	9.5	28.5	16.3	15.2	24.0	16.5
August	7.7	27.5	15.6	9.4	28.5	16.6	15.1	24.0	16.0
September	11.6	26.8	15.6	10.7	34.3	16.2	13.0	24.0	15.5
October	12.3	26.1	16.0	9.5	28.5	16.5	15.0	24.0	15.7
November	11.3	26.0	15.9	9.4	26.8	16.9	14.9	24.0	17.2
December	10.9	26.0	15.4	9.0	26.8	15.8	14.5	24.0	16.3

**MARKET INTEREST RATES
BANKS TOTAL^{a)}**

B) DEPOSIT RATES

Interest rate (p.a.), per cent

Fixed for less than one month			Fixed for less than one year ^{b)}			Fixed for more than one year			Current account deposit		Period
Min.	Max.	Weighted average	Min.	Max.	Weighted average	Min.	Max.	Weighted average	Min.	Max.	
10.0	40.0	25.1	15.0	40.0	31.1	20.0	38.0	33.0	5.0	24.0	December 1991
5.0	34.0	12.9	6.0	26.0	17.6	9.0	25.0	19.5	0.0	17.0	December 1992
3.0	26.0	15.5	7.0	27.0	17.2	13.0	25.0	18.7	3.0	10.0	December 1993
10.0	30.0	22.5	14.0	29.0	23.6	15.0	27.0	22.3	0.0	14.0	December 1994
10.0	29.5	23.8	10.0	30.5	26.1	17.0	30.0	25.9	3.0	20.0	December 1995
10.0	28.0	18.3	13.0	28.5	20.1	16.0	23.0	20.6	3.0	19.5	December 1996
5.5	20.5	16.8	5.0	23.5	17.6	13.5	24.5	18.2	2.5	18.0	December 1997
5.5	21.0	16.7	10.0	21.5	17.3	14.0	21.0	18.2	2.5	21.0	January 1998
5.5	20.0	16.4	7.0	21.5	17.3	14.5	20.0	17.0	2.5	24.0	February
5.0	20.5	16.1	12.5	23.5	17.1	14.5	24.7	16.6	2.5	17.0	March
7.5	20.5	16.0	10.5	22.0	16.1	14.2	19.6	16.8	2.5	24.0	April
6.3	20.5	15.8	9.0	22.0	16.4	7.8	21.0	16.1	2.5	17.3	May
7.0	20.5	15.2	7.8	23.5	16.1	7.8	21.0	16.0	1.0	17.0	June
5.8	20.5	14.9	9.8	22.0	15.8	13.5	19.6	16.0	2.5	24.0	July
6.0	20.5	14.4	9.8	20.4	15.3	10.0	21.4	15.2	2.5	17.0	August
6.0	20.5	14.3	6.0	24.8	15.3	10.0	20.8	15.1	1.0	18.0	September
5.8	20.5	14.7	8.0	22.0	15.7	10.0	21.7	14.7	1.0	18.0	October
5.3	20.0	14.6	5.5	19.5	15.5	12.8	21.5	14.9	1.0	18.0	November
4.8	19.0	14.3	4.3	25.4	15.4	13.0	21.4	15.0	1.0	18.0	December
5.5	20.5	14.1	5.5	25.4	14.7	6.0	22.3	14.5	1.0	17.0	January 1999
4.3	18.0	13.3	4.3	18.0	13.5	3.0	21.3	12.7	1.0	17.0	February
5.0	18.0	13.3	4.3	18.5	14.0	9.1	21.2	13.9	2.5	18.0	March
3.5	18.0	13.0	4.3	21.5	13.9	3.0	20.5	14.0	1.0	18.0	April
3.0	18.0	12.7	4.3	21.5	13.7	3.0	19.8	13.0	1.0	18.0	May
3.0	17.0	12.4	3.0	20.7	13.1	6.0	19.6	13.1	1.0	18.0	June
3.0	17.0	12.1	4.0	21.0	13.0	3.0	18.3	12.8	1.0	18.0	July
3.5	17.0	12.0	4.0	20.2	12.8	3.0	18.4	13.3	1.0	18.0	August
3.0	17.0	11.9	4.0	20.0	12.5	3.0	16.8	13.1	1.0	15.0	September
3.0	17.0	12.0	4.0	20.9	12.5	5.0	18.2	11.7	1.0	15.0	October
3.0	16.5	11.9	3.0	20.6	12.7	6.0	18.0	12.3	1.0	15.0	November
3.0	17.0	11.7	3.5	20.0	12.8	7.0	23.0	13.0	1.0	15.0	December

Source: NBH

^{a)} Data of the individual contracts concluded in the current month by the banks and specialized credit institutions with enterprises and small entrepreneurs under market conditions. Lending rates do not contain the additional charges (e.g. fees)

^{b)} Interest rates of deposits fixed for more than one month, but less than one year.

INTEREST RATES OF HOUSEHOLDS' DEPOSITS AND CREDIT

Interest rate (p. a.), per cent

Period	Deposits									Credits	
	On sight			Fixed for						Construc- tion	Consump- tion
				Within one year			Over one year				
	Min.	Max.	Average interest rates ^{a)}	Min.	Max.	Average interest rates ^{a)}	Min.	Max.	Average interest rates ^{a)}	Average interest rates ^{a)}	
<i>Banks total</i>											
January 1998	3.0	18.7	7.2	8.0	19.2	16.2	13.5	18.2	16.6	27.3	25.5
February	3.0	18.7	7.1	8.0	19.4	16.1	13.5	18.2	16.7	26.5	26.0
March	3.0	18.7	7.0	8.0	19.4	16.0	13.5	18.2	16.4	27.1	25.7
April	3.0	19.5	7.0	9.0	20.5	15.6	13.3	20.0	16.0	26.7	25.4
May	3.0	19.5	7.0	9.0	20.4	15.6	13.0	18.5	14.9	26.6	25.3
June	3.0	19.5	7.0	7.5	20.3	15.4	12.6	20.1	15.0	26.3	25.6
July	3.0	18.0	6.9	7.5	20.5	15.3	12.5	19.2	15.0	26.5	25.3
August	3.0	19.0	6.9	7.5	20.2	14.9	12.0	18.1	14.8	26.4	25.0
September	3.0	19.0	6.7	7.5	19.6	14.7	12.0	19.1	14.9	26.4	25.4
October	3.0	18.0	6.7	7.5	20.5	14.8	12.6	18.6	14.4	26.2	25.5
November	3.0	18.0	6.7	7.0	20.6	14.7	12.0	18.0	14.4	26.2	25.2
December	3.0	18.0	6.6	7.0	18.0	14.6	10.0	18.7	14.3	26.3	25.5
January 1999	3.0	15.6	7.0	7.0	18.0	14.0	10.0	16.5	13.8	24.7	24.8
February	3.0	15.7	7.2	7.0	18.0	13.6	10.0	16.6	13.7	24.3	23.8
March	3.0	15.2	6.8	7.0	18.0	13.0	10.0	15.5	13.1	24.3	23.7
April	3.0	15.2	6.8	7.0	18.0	12.8	10.0	15.9	12.9	24.0	24.1
May	2.0	14.5	6.5	7.0	17.0	12.4	10.0	15.9	12.6	23.9	23.8
June	2.0	14.5	6.3	7.0	17.0	12.1	10.0	15.9	12.6	22.7	24.0
July	2.0	14.0	6.1	6.7	17.0	12.0	10.0	15.0	11.9	22.6	23.9
August	2.0	14.0	5.8	7.0	16.0	11.7	10.0	15.3	11.6	22.5	24.1
September	2.0	14.0	5.9	7.0	16.3	11.5	10.0	15.0	11.3	22.4	23.1
October	2.0	14.0	6.0	7.0	15.5	11.5	10.0	14.5	11.3	22.3	22.8
November	2.0	14.0	5.9	7.0	16.0	11.3	10.0	14.5	11.7	22.1	23.1
December	2.0	14.0	5.7	7.0	16.0	11.3	9.8	16.0	11.9	22.0	23.2
<i>Large banks</i>											
January 1998	3.0	17.1	6.6	8.0	19.0	15.9	14.5	18.0	16.0	27.1	25.7
February	3.0	17.1	6.6	8.0	18.3	15.9	14.5	17.3	15.9	26.4	25.7
March	3.0	17.1	6.6	8.0	18.3	15.8	14.5	17.3	15.8	27.1	25.8
April	3.0	17.5	6.5	11.5	18.0	15.3	13.3	18.0	15.6	26.6	25.9
May	3.0	17.5	6.5	11.0	18.0	15.4	13.3	18.0	14.4	26.5	25.8
June	3.0	17.0	6.5	11.0	18.0	15.2	13.0	16.5	14.5	26.3	25.8
July	3.0	17.0	6.4	11.0	18.0	15.2	12.5	16.5	14.4	26.5	26.2
August	3.0	16.5	6.3	11.0	18.0	14.7	12.0	16.5	14.5	26.4	25.9
September	3.0	16.0	6.3	11.0	17.5	14.7	12.0	16.5	14.4	26.3	26.0
October	3.0	16.0	6.3	11.0	17.5	14.6	13.3	15.8	14.3	26.3	26.2
November	3.0	16.0	6.3	11.0	17.0	14.5	12.0	15.5	14.2	26.2	25.7
December	3.0	16.0	6.3	11.0	17.0	14.5	10.0	16.0	14.2	26.2	26.2
January 1999	3.0	15.5	6.5	10.0	17.0	13.9	10.0	14.3	13.6	24.5	25.0
February	3.0	14.8	6.7	10.0	15.5	13.4	10.0	14.3	13.5	24.2	23.7
March	3.0	14.8	6.3	10.0	15.2	12.8	10.0	13.8	13.0	24.2	23.6
April	3.0	14.0	6.2	9.5	15.0	12.6	10.0	13.8	12.8	24.0	23.8
May	3.0	14.0	6.1	9.5	15.0	12.2	10.0	13.8	12.4	23.9	23.4
June	3.0	14.0	5.8	8.5	14.7	11.9	10.0	13.8	12.5	22.5	23.7
July	3.0	13.8	5.6	9.0	14.4	11.8	10.0	12.5	11.3	22.5	23.6
August	3.0	13.5	5.3	9.0	14.5	11.5	10.6	15.3	11.2	22.6	23.8
September	3.0	13.5	5.4	8.9	14.9	11.3	10.5	12.5	10.8	22.4	22.6
October	3.0	13.3	5.5	8.9	13.9	11.3	10.3	12.3	10.8	22.4	22.5
November	3.0	13.0	5.3	8.8	14.0	11.1	10.0	12.0	10.7	22.1	22.8
December	3.0	13.0	5.3	9.0	14.8	11.0	10.0	16.0	11.1	22.0	22.9

INTEREST RATES OF HOUSEHOLDS' DEPOSITS AND CREDITS

Interest rate (p. a.), per cent

Period	Deposits									Credits	
	On sight			Fixed for						Construc- tion	Consump- tion
				Within one year			Over one year				
	Min.	Max.	Average interest rates ^{a)}	Min.	Max.	Average interest rates ^{a)}	Min.	Max.	Average interest rates ^{a)}	Average interest rates ^{a)}	
<i>Medium and small banks</i>											
January 1998	3.0	18.7	11.2	12.0	19.2	17.1	13.5	18.0	17.4	...	24.7
February	3.0	18.7	11.2	12.0	19.2	16.8	13.5	18.0	17.9	...	26.2
March	3.0	18.7	10.7	12.0	19.2	16.7	13.5	18.0	17.4	...	24.9
April	5.0	19.5	11.1	9.0	20.5	16.4	16.1	20.0	17.6	...	24.5
May	4.5	19.5	10.8	9.0	20.4	16.1	16.1	18.5	17.7	...	24.2
June	4.0	19.5	10.9	7.5	20.3	16.0	15.5	20.1	17.3	...	25.1
July	5.0	18.0	11.2	7.5	20.5	15.7	15.5	19.2	17.2	...	23.5
August	5.0	19.0	10.8	7.5	20.2	15.4	14.5	18.1	16.6	...	23.1
September	5.0	19.0	10.2	7.5	19.6	15.0	14.5	19.1	16.5	...	23.9
October	5.0	18.0	10.0	7.5	20.5	15.1	14.5	18.6	15.4	...	23.9
November	4.1	18.0	10.0	7.0	20.6	15.1	14.5	18.0	15.4	...	23.8
December	3.0	18.0	10.3	7.0	18.0	14.8	14.5	18.7	15.4	...	23.7
January 1999	3.0	15.6	9.8	7.0	16.5	14.4	10.8	16.5	14.5	...	23.8
February	5.0	15.7	9.5	7.0	18.0	14.2	13.8	16.6	14.4	...	23.6
March	4.0	15.2	9.3	7.0	18.0	14.0	13.1	15.5	14.0	...	23.6
April	4.0	15.2	9.2	7.0	18.0	13.6	13.1	15.9	13.9	...	24.5
May	2.0	14.5	7.9	7.0	17.0	13.2	12.6	15.9	13.8	...	24.5
June	2.0	14.5	7.9	7.0	17.0	13.2	12.6	15.9	13.7	...	24.6
July	2.0	14.0	7.7	6.7	17.0	12.9	12.1	15.0	13.3	...	24.6
August	2.0	14.0	7.5	7.0	16.0	12.6	12.1	14.5	13.0	...	24.5
September	2.0	14.0	7.7	7.0	16.3	12.6	11.6	15.0	12.8	...	24.3
October	2.0	14.0	7.6	7.0	15.5	12.5	11.6	14.5	12.5	...	23.4
November	2.0	14.0	7.6	7.0	16.0	12.4	11.6	14.5	12.7	...	23.6
December	2.0	14.0	7.1	7.0	16.0	12.4	11.6	14.1	12.7	...	23.9
<i>Savings-banks^{b)}</i>											
January 1998	5.0	15.0	9.7	12.0	19.2	16.3	14.7	18.2	16.1	28.5	28.7
February	5.0	15.0	9.7	12.0	19.4	16.0	14.0	18.2	16.1	28.1	29.1
March	5.0	15.0	9.4	12.0	19.4	16.0	14.0	18.2	16.1	28.4	29.9
April	4.0	15.0	9.3	12.0	19.1	15.9	14.0	18.3	15.4	27.9	28.8
May	3.0	15.0	9.1	10.0	19.6	15.6	13.0	18.0	14.9	27.8	28.9
June	3.0	15.0	9.1	10.0	20.2	15.3	12.6	17.0	14.6	27.6	28.9
July	3.0	15.0	9.2	10.0	19.6	15.3	12.6	18.3	14.4	27.8	28.9
August	3.0	14.0	8.4	10.0	18.4	14.9	12.6	16.0	14.9	27.7	28.0
September	3.0	14.0	8.6	10.0	16.9	14.8	12.6	17.0	14.8	28.1	28.3
October	3.0	14.0	8.4	10.0	16.9	14.9	12.6	17.0	14.8	27.4	28.6
November	3.0	13.0	8.6	10.0	16.9	14.8	12.6	16.0	14.9	26.8	28.2
December	3.0	13.0	8.7	9.0	16.9	14.6	12.6	16.0	14.2	27.7	27.4
January 1999	5.0	14.0	8.5	10.0	16.5	14.1	12.6	16.0	13.6	26.7	28.3
February	5.0	12.0	8.3	9.0	16.2	13.9	12.5	15.5	13.5	25.6	27.6
March	3.0	12.0	8.2	10.0	16.0	13.6	10.0	15.5	13.6	25.6	26.2
April	4.0	12.0	8.0	10.0	16.1	13.3	10.0	15.0	13.3	25.1	26.2
May	4.0	12.0	7.8	10.0	16.1	13.0	10.0	15.0	12.8	24.9	26.1
June	4.0	12.0	7.8	10.0	15.5	12.7	10.0	15.0	12.5	25.0	26.1
July	4.0	12.0	7.7	9.0	15.4	12.7	10.0	14.5	12.0	24.9	26.2
August	4.0	12.0	7.5	9.0	15.4	12.4	10.0	14.5	12.2	25.0	26.5
September	4.0	11.0	7.4	9.0	15.1	12.0	10.0	13.8	12.3	24.3	25.7
October	4.0	11.0	7.5	8.1	14.0	12.0	10.0	14.0	12.3	24.4	25.4
November	4.0	11.0	7.3	8.1	13.6	11.9	10.0	13.0	12.1	24.5	25.4
December	4.0	11.0	7.5	8.0	13.5	11.8	9.8	13.0	11.7	23.6	25.5

Source: NBH

^{a)} Interest rates effecting in a given period weighted by the stock of individual contracts in the given month.^{b)} On the base of data 19 representative savings-banks.

INTEREST RATES OF HOUSEHOLDS' SHORT-TERM DEPOSITS

Interest rate (p. a.), per cent

Period	Deposits fixed											
	Within one month			1-3 month			3-6 month			6-12 month		
	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}
<i>Banks total</i>												
January 1998	8.0	18.3	15.9	10.0	18.8	16.6	13.0	18.5	16.6	12.8	19.2	16.7
February	8.0	18.0	15.9	10.0	18.5	16.4	13.0	18.5	16.6	12.8	19.4	16.6
March	8.0	18.0	15.8	10.0	18.5	16.4	13.0	18.5	16.6	12.8	19.4	16.6
April	9.0	18.0	15.4	12.0	20.5	16.0	13.0	19.3	16.3	12.8	19.1	16.3
May	9.0	17.5	15.4	10.0	20.4	16.0	11.0	19.3	16.0	10.0	19.6	16.3
June	7.5	17.4	15.2	10.0	20.3	15.9	11.0	19.7	15.8	10.9	20.3	15.8
July	7.5	17.1	15.1	10.0	20.5	15.7	11.0	19.3	15.5	10.9	19.6	16.2
August	7.5	17.1	14.6	10.0	20.2	15.4	11.0	19.3	15.1	10.9	18.4	15.7
September	7.5	16.6	14.5	10.0	17.8	15.0	11.0	19.6	14.9	10.0	17.5	15.6
October	7.5	17.2	14.6	10.0	20.5	15.0	11.0	19.9	14.9	11.0	17.5	15.2
November	7.0	17.2	14.5	10.0	20.6	14.9	11.0	18.0	14.9	12.0	17.0	15.4
December	7.0	16.9	14.4	9.0	17.8	14.9	10.0	18.0	14.7	11.0	17.2	15.4
January 1999	7.0	16.5	13.9	10.0	17.8	14.3	10.0	18.0	14.1	11.0	17.0	14.3
February	7.0	16.5	13.4	9.0	17.8	14.1	10.0	18.0	13.9	10.9	17.0	13.9
March	7.0	16.0	12.8	10.0	17.8	13.9	10.0	18.0	13.6	10.0	16.5	13.3
April	7.0	15.3	12.6	9.5	17.8	13.6	10.0	18.0	13.3	10.0	16.4	13.0
May	7.0	15.9	12.1	7.8	16.8	13.2	10.0	17.0	12.9	10.0	16.1	12.8
June	7.0	14.9	11.8	8.5	16.8	13.1	9.0	17.0	12.7	9.7	15.9	12.6
July	6.7	14.9	11.7	9.0	16.5	13.0	9.0	17.0	12.8	10.0	15.9	12.5
August	7.0	15.0	11.4	9.0	15.8	12.7	10.0	16.0	12.3	10.0	15.9	12.3
September	7.0	14.9	11.2	9.0	15.8	12.5	9.8	16.3	12.2	9.0	15.8	12.4
October	7.0	14.0	11.2	8.1	15.5	12.4	9.8	15.4	12.3	9.0	15.2	11.8
November	7.0	14.0	11.0	8.1	15.8	12.4	9.8	16.0	12.2	9.0	15.4	11.6
December	7.0	14.2	11.0	8.0	15.5	12.3	9.0	16.0	12.0	9.0	15.5	11.5
<i>Large banks</i>												
January 1998	8.0	17.7	15.7	10.0	18.8	16.0	13.0	18.0	16.4	14.0	19.0	16.5
February	8.0	17.2	15.7	10.0	18.3	15.9	13.0	18.0	16.3	14.0	18.0	16.4
March	8.0	17.2	15.7	10.0	18.3	15.9	13.0	18.0	16.2	14.0	18.0	16.3
April	11.5	16.8	15.2	12.0	17.2	15.5	13.0	17.5	15.8	13.0	18.0	16.0
May	11.0	16.7	15.3	11.5	17.0	15.6	12.5	17.2	15.8	13.0	18.0	15.9
June	11.0	16.5	15.1	11.5	16.7	15.4	12.5	17.0	15.5	13.0	18.0	15.7
July	11.0	16.3	15.0	11.5	16.5	15.2	12.5	17.0	15.2	13.0	18.0	16.3
August	11.0	15.9	14.5	11.5	16.3	15.0	12.5	17.0	14.7	12.8	18.0	15.8
September	11.0	15.6	14.5	11.0	15.9	14.7	12.0	16.1	14.6	12.0	17.5	15.7
October	11.0	16.1	14.6	11.0	15.9	14.5	11.5	17.0	14.5	12.0	17.5	15.3
November	11.0	15.8	14.4	11.0	16.2	14.5	12.0	16.5	14.6	12.0	17.0	15.6
December	11.0	15.6	14.4	11.0	16.2	14.5	11.0	16.6	14.5	11.0	17.0	15.6
January 1999	10.5	15.2	13.9	10.0	15.4	14.0	11.0	15.3	13.8	11.0	17.0	14.3
February	10.5	14.6	13.4	10.0	15.2	13.8	11.0	15.4	13.5	11.0	15.5	13.8
March	10.0	14.3	12.7	10.0	15.0	13.4	10.5	15.2	12.9	11.5	15.0	13.1
April	9.5	14.2	12.5	9.5	14.6	13.1	10.0	15.0	12.9	10.7	15.0	12.8
May	9.5	13.8	12.1	9.5	14.5	12.7	10.0	14.8	12.3	10.0	15.0	12.8
June	8.5	13.9	11.7	8.5	14.3	12.4	9.0	14.7	12.0	9.7	14.6	12.6
July	9.7	13.6	11.7	9.0	14.1	12.4	10.5	14.2	11.9	10.0	14.4	12.3
August	10.7	13.6	11.3	9.0	14.0	12.1	10.5	14.5	11.6	10.0	14.2	12.3
September	8.9	13.5	11.2	9.0	13.9	11.8	10.5	14.9	11.5	9.0	14.2	12.6
October	8.9	13.4	11.2	9.0	13.7	11.9	10.8	13.8	11.8	9.0	13.9	11.7
November	8.8	13.2	10.9	9.0	13.7	11.7	9.8	14.0	11.9	9.0	13.8	11.4
December	9.3	13.0	11.0	9.0	13.5	11.6	9.3	13.2	11.6	9.0	14.8	11.2

INTEREST RATES OF HOUSEHOLDS' SHORT-TERM DEPOSITS

Interest rate (p. a.), per cent

Period	Deposits fixed											
	Within one month			1-3 month			3-6 month			6-12 month		
	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}	Min.	Max.	Average interest rate ^{a)}
<i>Medium and small banks</i>												
January 1998	12.0	18.3	16.7	14.0	18.5	17.6	14.0	18.5	17.5	13.5	19.2	17.9
February	12.0	18.0	16.4	13.7	18.5	17.4	14.0	18.5	17.4	13.5	19.2	17.6
March	12.0	18.0	16.2	13.7	18.5	17.1	14.0	18.5	17.3	13.5	19.2	18.0
April	9.0	17.7	15.9	15.8	20.5	16.9	15.5	19.3	17.1	15.0	18.9	17.4
May	9.0	17.5	15.7	15.0	20.4	16.8	15.5	19.3	17.0	15.0	18.5	17.4
June	7.5	17.4	15.7	14.1	20.3	16.7	13.6	19.7	16.7	12.0	20.3	16.1
July	7.5	17.1	15.3	14.1	20.5	16.5	13.6	19.3	16.4	12.0	18.9	15.9
August	7.5	17.1	14.9	14.1	20.2	16.3	13.6	19.3	16.2	14.3	17.7	15.3
September	7.5	16.6	14.7	14.1	17.8	15.5	13.6	19.6	15.7	14.0	17.4	15.1
October	7.5	17.2	14.9	14.1	20.5	15.7	13.6	19.9	15.7	14.0	17.1	14.8
November	7.0	17.2	14.9	13.5	20.6	15.6	12.8	18.0	15.7	14.0	17.0	14.9
December	7.0	16.9	14.5	12.9	17.8	15.4	12.8	18.0	15.3	11.0	17.2	14.8
January 1999	7.0	16.5	13.9	12.9	17.8	14.8	12.8	18.0	14.9	12.8	17.0	14.3
February	7.0	16.5	13.9	13.5	17.8	14.8	12.8	18.0	15.1	12.8	17.0	14.3
March	7.0	16.0	13.4	13.0	17.8	14.6	12.8	18.0	14.6	12.8	16.5	13.8
April	7.0	15.3	12.9	9.9	17.8	14.3	12.0	18.0	14.3	12.6	16.4	13.5
May	7.0	15.9	12.5	7.8	16.8	14.1	12.0	17.0	14.0	12.3	15.9	13.1
June	7.0	14.9	12.5	11.2	16.8	14.0	12.0	17.0	13.8	10.4	15.9	13.1
July	6.7	14.9	12.1	11.0	16.5	13.9	10.0	17.0	13.6	10.4	15.9	12.9
August	7.0	15.0	11.9	11.0	15.8	13.7	10.0	16.0	13.1	10.9	15.9	12.3
September	7.0	14.9	11.8	11.1	15.8	13.6	10.1	16.3	13.1	10.0	15.8	12.1
October	7.0	14.0	11.8	11.1	15.5	13.6	11.5	15.4	12.9	10.9	15.2	12.0
November	7.0	14.0	11.6	11.0	15.8	13.8	11.5	16.0	12.7	10.9	15.4	11.8
December	7.0	14.2	11.5	11.0	15.5	13.5	11.5	16.0	12.6	10.0	15.5	11.9
<i>Savings-banks^{b)}</i>												
January 1998	13.0	16.0	14.2	12.0	18.0	16.4	13.0	18.2	16.7	12.8	19.2	15.8
February	13.0	16.0	14.1	12.0	18.0	16.0	13.0	18.2	16.6	12.8	19.2	16.1
March	13.0	16.0	14.1	12.0	18.0	16.1	13.0	18.2	16.5	12.8	19.2	15.8
April	13.0	18.0	14.4	12.0	17.0	15.9	13.0	17.0	16.5	12.8	19.1	15.7
May	12.0	16.3	13.7	10.0	17.5	15.7	11.0	17.0	16.0	10.0	19.6	15.4
June	12.0	16.3	13.6	10.0	17.5	15.5	11.0	16.8	14.5	10.9	20.2	15.3
July	12.0	16.3	13.8	10.0	19.0	15.5	11.0	17.6	14.9	10.9	19.6	14.9
August	12.0	16.0	13.7	10.0	16.3	15.1	11.0	16.5	14.3	10.9	18.4	14.9
September	12.0	16.0	13.7	10.0	16.3	15.0	11.0	16.5	14.3	10.0	16.9	14.4
October	12.0	16.0	13.4	10.0	16.3	15.0	11.0	16.5	14.4	12.5	16.9	14.8
November	12.0	16.0	14.0	10.0	16.3	15.0	11.0	16.6	14.3	12.5	16.9	14.7
December	12.0	16.0	14.0	9.0	16.3	14.8	10.0	16.7	14.2	12.5	16.9	14.4
January 1999	13.0	14.4	14.1	10.0	15.7	14.2	10.0	15.7	14.4	12.5	16.5	13.9
February	12.5	14.4	14.0	9.0	15.5	13.9	10.0	15.7	13.7	10.9	16.2	14.0
March	12.5	14.4	14.0	10.0	15.5	13.6	10.0	15.7	13.4	10.0	16.0	13.8
April	10.0	14.4	13.1	10.0	14.8	13.2	10.9	15.7	13.1	10.0	16.1	13.5
May	10.0	14.1	11.5	10.0	14.5	13.0	10.8	15.7	12.9	10.0	16.1	13.2
June	10.0	14.0	12.1	10.0	14.0	12.7	10.8	13.8	12.7	10.0	15.5	12.9
July	10.0	14.0	12.6	9.0	13.9	12.6	9.0	13.7	12.8	10.0	15.4	12.8
August	9.5	14.0	12.4	9.0	13.8	12.4	10.0	13.1	11.8	10.0	15.4	12.7
September	9.5	12.7	11.5	9.0	13.4	12.0	9.8	13.5	11.6	10.0	15.1	12.2
October	9.5	12.7	11.6	8.1	14.0	12.1	9.8	13.5	11.6	10.0	13.7	12.1
November	9.5	12.6	11.6	8.1	13.3	12.0	9.8	13.0	11.5	10.0	13.6	12.1
December	9.5	12.6	11.6	8.0	13.2	11.9	9.0	12.9	11.6	9.8	13.5	11.7

Source: NBH

^{a)} Interest rates effecting in a given period weighted by the stock of individual contracts in the given month.^{b)} On the base of data 19 representative savings-banks.

XIV. STOCK EXCHANGE INDICES

BUDAPEST STOCK EXCHANGE INDEX (BUX)

2 January 1991 = 1000

Day	December	January	February	March	April	May	June	July	August	September	October	November	December
	1998	1999											
1	5,609.44		6,572.42	5,679.20	5,512.70		6,390.81	6,574.16		7,437.72	6,639.55	6,946.82	7,479.54
2	5,584.97		6,524.74	5,529.29	5,618.03		6,284.04	6,691.23	7,199.98	7,301.29		7,051.68	7,603.75
3	5,465.43		6,504.19	5,440.10		6,126.51	6,408.05		7,195.72	7,465.16		7,224.17	7,922.91
4	5,665.62		6,591.61	5,253.03		6,269.26	6,408.44		7,187.17		6,775.96	7,231.49	
5			6,473.68	5,335.58		6,307.66		6,904.52	7,095.15		6,736.34	7,271.93	
6					5,708.94	6,605.99		7,107.56	7,104.71	7,577.43	6,664.53		7,968.21
7	5,810.31	6,773.02			5,676.40	6,532.92	6,297.29	7,109.59		7,494.66	6,724.05		7,921.80
8	5,758.48	6,943.08	6,388.35	5,803.53	5,777.35		6,342.87	7,277.23		7,455.26	6,830.98	7,231.39	7,942.16
9	5,784.03		6,253.80	5,907.24	5,836.80		6,344.84	7,497.72	7,128.19	7,532.16		7,228.36	8,145.27
10	5,892.85		6,268.91	5,886.99		6,429.44	6,399.74		6,967.61	7,579.54		7,195.26	8,219.80
11	5,815.53	6,841.09	6,392.50	5,832.22		6,487.13	6,462.15		6,958.24		6,883.92	7,274.21	
12		6,826.34	6,433.07	5,819.67	5,662.43	6,443.01		7,519.23	7,064.73		6,804.62	7,198.23	
13		6,158.51			5,621.88	6,337.29		7,264.69	7,141.24	7,505.54	6,655.82		8,139.18
14	5,887.10	6,127.68			5,642.22	6,344.12	6,467.64	7,292.28		7,360.81	6,587.15		8,040.62
15	5,820.76	5,793.58	6,327.23		5,626.89		6,532.79	7,325.34		7,273.26	6,386.17	7,295.22	8,022.02
16	5,893.58		6,379.49	5,784.72	5,783.13		6,590.86	7,298.94	7,068.45	7,011.14		7,432.51	8,107.71
17	5,804.73		6,171.38	5,717.77		6,296.70	6,530.28		7,077.62	7,147.22		7,482.99	8,244.84
18	5,897.82	6,340.15	6,099.63	5,489.80		6,434.63	6,524.92		7,055.93		6,244.29	7,587.16	
19		6,360.43	5,935.72	5,606.74	5,829.73	6,464.77		7,317.34	7,124.39		6,468.02	7,538.32	
20		6,550.92			5,865.65	6,403.89		7,234.35		7,149.06	6,580.69		8,456.65
21	6,111.20	6,392.40			5,971.79	6,440.30	6,539.48	7,234.34		7,038.64	6,445.59		8,409.77
22	6,307.50	6,228.86	5,674.36	5,502.65	5,968.25		6,399.02	7,203.62		6,895.74	6,748.83	7,493.28	8,458.01
23	6,340.59		5,500.51	5,355.60	5,997.25		6,350.03	7,206.32	7,409.07	6,893.33		7,414.85	8,540.24
24			5,661.60	5,295.23			6,458.54		7,388.95	6,779.71		7,390.16	
25		6,458.28	5,615.12	5,457.47		6,274.13	6,558.81		7,479.30		6,754.30	7,386.69	
26		6,402.87	5,620.94	5,326.76	6,025.72	6,356.65		7,094.51	7,517.99		6,780.56	7,437.32	
27		6,433.25			6,097.70	6,321.03		7,178.04	7,523.00	6,883.98	6,687.34		8,742.87
28	6,368.80	6,434.46			6,008.91	6,249.42	6,547.02	7,253.69		6,852.47	6,752.25		8,875.18
29	6,371.44	6,507.14		5,283.29	5,972.50		6,456.54	7,141.79	7,508.95	6,805.46	6,959.16	7,446.25	8,819.45
30	6,307.67			5,318.66	5,985.27		6,485.80	7,256.51	7,459.84	6,747.13		7,440.15	
31				5,489.64		6,438.82							

Source: BSE

CENTRAL EUROPEAN STOCK INDEX (CESI)

30 June 1995 = 1000

Day	December	January	February	March	April	May	June	July	August	September	October	November	December
	1998	1999											
1	1,151.59		1,292.53	1,095.01	1,139.77		1,290.21	1,335.89		1,385.15	1,210.06	1,214.16	1,245.70
2	1,144.14		1,279.25	1,084.50	1,139.77		1,267.92	1,332.02	1,405.08	1,369.52		1,212.18	1,255.55
3	1,125.95		1,271.48	1,079.65		1,215.14	1,273.08		1,408.55	1,368.55		1,218.91	1,258.99
4	1,146.37	1,306.18	1,285.80	1,058.62		1,245.82	1,264.06		1,418.63		1,210.60	1,225.95	
5		1,326.55	1,267.64	1,063.18		1,247.08		1,338.90	1,401.77		1,227.55	1,203.74	
6		1,342.87			1,170.01	1,276.62		1,345.21	1,394.54	1,373.30	1,229.31		1,288.64
7	1,181.91	1,392.96			1,186.25	1,274.41	1,252.97	1,345.50		1,333.64	1,236.13		1,285.35
8	1,186.28	1,405.55	1,243.63	1,107.07	1,205.52		1,257.64	1,356.95		1,341.93	1,233.78	1,201.53	1,307.05
9	1,189.09		1,229.89	1,133.92	1,211.53		1,252.70	1,373.83	1,384.46	1,339.04		1,214.33	1,331.14
10	1,211.38		1,218.39	1,139.02		1,263.59	1,276.91		1,365.49	1,338.25		1,205.83	1,358.72
11	1,199.84	1,392.26	1,237.61	1,139.23		1,277.62	1,289.74		1,354.34		1,237.87	1,212.65	
12		1,362.59	1,254.72	1,151.08	1,178.46	1,266.42		1,386.71	1,371.83		1,225.26	1,204.06	
13		1,273.56			1,172.54	1,253.65		1,359.43	1,368.28	1,318.65	1,201.06		1,337.90
14	1,199.24	1,247.09			1,165.87	1,270.27	1,304.66	1,356.91		1,306.95	1,202.00		1,313.47
15	1,193.48	1,213.22	1,233.38		1,165.35		1,318.52	1,393.91		1,268.43	1,194.43	1,209.68	1,310.95
16	1,206.27		1,233.26	1,139.39	1,158.90		1,310.62	1,381.72	1,370.64	1,243.13		1,227.16	1,321.17
17	1,206.81		1,223.27	1,141.11		1,248.26	1,317.61		1,350.36	1,266.03		1,253.00	1,330.83
18	1,218.50	1,286.07	1,197.34	1,124.24		1,266.54	1,323.46		1,358.24		1,169.09	1,250.08	
19		1,289.42	1,171.68	1,130.03	1,182.86	1,294.11		1,382.89	1,363.87		1,179.66	1,264.54	
20		1,322.94			1,190.53	1,296.45		1,397.66	1,366.75	1,280.18	1,195.53		1,349.36
21	1,239.95	1,314.30			1,197.54	1,308.38	1,330.39	1,381.93		1,266.25	1,204.97		1,350.24
22	1,239.95	1,269.17	1,147.68	1,128.30	1,202.72		1,329.69	1,399.46		1,247.47	1,217.03	1,270.50	1,356.75
23	1,272.94		1,123.44	1,117.57	1,215.77		1,306.63	1,402.88	1,377.32	1,240.30		1,258.18	1,369.57
24			1,106.84	1,083.35			1,319.56		1,379.18	1,217.08		1,243.76	1,368.10
25		1,269.15	1,106.81	1,113.54		1,307.73	1,327.92		1,390.81		1,220.65	1,249.52	
26		1,298.58	1,088.16	1,111.31	1,218.30	1,288.83		1,409.72	1,395.08		1,208.23	1,246.01	
27		1,297.74			1,220.81	1,277.14		1,397.56	1,389.36	1,222.83	1,198.03		1,402.63
28	1,277.56	1,283.37			1,212.65	1,261.73	1,329.19	1,414.18		1,232.25	1,193.61		1,413.67
29	1,293.60	1,301.86		1,090.77	1,193.57		1,317.79	1,410.88		1,223.50	1,214.57	1,228.26	1,400.60
30	1,284.54			1,111.98	1,205.50		1,311.79	1,412.51	1,388.34	1,216.45		1,232.18	1,401.63
31				1,120.36		1,279.67			1,383.00				

Source: BSE

HUNGARIAN GOVERNMENT PAPER INDEX, (HGP)
DECEMBER 1998–DECEMBER 1999
 31 December 1996 = 100.0000

Day	December	January	February	March	April	May	June	July	August	September	October	November	December
	1998	1999											
1	142.7546		152.9900	152.3421	152.8575		157.0122	158.2872		162.0208	163.5844	166.6921	170.8086
2	142.8203		152.9159	152.4791	153.0047		157.1214	158.3346	160.3910	162.1515		166.8311	170.9700
3	143.0170		152.8782	152.5692		156.4745	157.3021		160.4349	161.9157		167.3795	171.2900
4	143.0991	149.1366	153.1572	152.8843		156.5494	157.3760		160.5118		163.7579	167.9402	
5		150.1805	153.2798	152.6988		156.7739		158.3370	160.8249		164.0642	167.9838	
6		151.2358			153.0603	157.0299		158.4366	160.9363	161.9702	164.2505		171.6382
7	143.1638	151.5933			153.2610	157.1515	157.4220	158.5194		161.9833	164.5523		171.8171
8	143.3551	151.4338	153.3383	152.8417	153.3467		157.3894	158.7223		162.0422	164.7621	168.0225	171.8562
9	143.6219		153.2901	153.1507	154.6926		157.3434	158.9118	160.9966	162.1647		168.0501	172.1223
10	144.0881		153.1246	153.1900		156.8659	157.5247		161.0027	162.2840		168.3203	172.8697
11	144.2056	151.7032	153.3546	153.3520		156.9305	157.7598		160.9593		164.8238	169.6224	
12		151.6007	153.4776	153.1037	154.6339	156.8885		159.1307	160.8395		164.8343	169.5844	
13		151.5336			154.4836	156.6172		159.5181	160.9471	162.3453	164.8968		172.9275
14	145.0984	149.4172			153.9579	156.5697	157.8129	159.9125		162.3685	165.0609		172.9711
15	145.3471	149.9005	153.5085		154.1453		157.8310	160.0301		162.4813	165.1658	169.6929	173.7608
16	145.7627		153.4061	153.1126	154.3869		157.8873	159.7993	160.9804	162.6248		169.7416	174.6071
17	146.6116		153.1674	153.0091		156.6169	157.8721		160.9930	162.6618		169.8077	174.4083
18	147.2082	149.9958	153.0668	152.8527		156.4080	157.8293		161.2599		165.3124	169.7412	174.5006
19	147.5619	151.0884	153.0112	152.7326	154.4986	156.4488		159.8423	161.3147		165.3598	169.8389	
20		150.9085			154.7478	156.7921		159.8666		162.6805	165.4129		174.6753
21	147.6599	150.3884			155.4722	157.0167	157.8745	159.9361		162.7297	165.5947		175.3794
22	147.9710	151.5811	152.8439	152.7350	155.9196		157.9351	160.1027		162.0998	165.6616	169.9003	175.7346
23	148.1896		152.8884	152.6079	155.9304		157.9365	160.1270	161.3798	162.9605		169.9771	175.7788
24			152.3956	152.3045			158.1382		161.4618	163.0034		170.1356	
25		151.4314	152.0745	151.6149		157.0452	158.2158		161.5345		165.7256	170.2874	
26		151.4124	152.3643	152.2908	155.9905	157.0590		160.1270	161.7815		165.7766	170.4202	
27		151.6820			156.0015	157.1987		160.2035	161.8949	163.0645	165.8340		175.8316
28	148.2786	151.9661			156.2730	157.1019	158.3022	160.1627		163.1222	166.0036		176.2110
29	148.4294	152.8361		152.3619	156.3836		158.3439	160.3253		163.2046	166.0618	170.4976	176.3796
30	148.5865			152.4029	156.4353		158.3355	160.3533	161.9452	163.3947		170.6502	
31	148.9125			152.5031		156.9755			161.9932				

Source: BSE

Note: the index published from 3 December 1997.

**XV. BALANCE SHEET AND INCOME STATEMENT
OF THE NBH**

BALANCE SHEET OF THE NBH, 1999

Ft millions

ASSETS	31 Dec. 1998	31 Dec. 1999	Difference
I. RECEIVABLES IN FORINT (A+B)	1,006,329	909,931	(96,398)
A. FORINT RECEIVABLES (1+2+3+4)	1,009,538	914,684	(94,854)
1. Receivables from the Central Government	811,775	763,692	(48,083)
a) Receivables within 1 year	376,876	401,264	24,388
b) Receivables over 1 year	434,899	362,428	(72,471)
2. Receivables from credit institutions	167,078	120,279	(46,799)
a) Receivables within 1 year	22,185	2,466	(19,719)
b) Receivables over 1 year	144,893	117,813	(27,080)
3. Receivables from money issue and circulation	30,000	30,000	0
a) Receivables from the Hungarian Post Administration	30,000	30,000	0
b) Items in transit	0	0	0
4. Other receivables	685	713	28
a) Receivables within 1 year	3	3	0
b) Receivables over 1 year	682	710	28
B. PROVISION FOR FORINT RECEIVABLES (1+2)	(3,209)	(4,753)	(1,544)
1. Provision for receivables from credit institutions	(3,209)	(4,753)	(1,544)
2. Provision for other forint receivables	0	0	0
II. RECEIVABLES IN FOREIGN CURRENCY (A+B)	4,644,889	5,192,419	547,530
A. FOREIGN CURRENCY RECEIVABLES (1+2+3+4)	4,648,377	5,195,900	547,523
1. Gold and foreign currency reserves	2,048,804	2,740,759	691,955
2. Receivables from the Central Government	2,118,180	1,724,517	(393,663)
a) Receivables within 1 year	0	3,540	3,540
b) Receivables over 1 year	2,118,180	1,720,977	(397,203)
3. Receivables from credit institutions	11,427	6,327	(5,100)
a) Receivables within 1 year	342	439	97
b) Receivables over 1 year	11,085	5,888	(5,197)
4. Other foreign currency receivables	469,966	724,297	254,331
a) Receivables within 1 year	180,378	143,815	(36,563)
b) Receivables over 1 year	289,588	580,482	290,894
B. PROVISION FOR FOREIGN CURRENCY RECEIVABLES (1+2)	(3,488)	(3,481)	7
1. Provision for receivables from credit institutions	0	(37)	(37)
2. Provision for other foreign currency receivables	(3,488)	(3,444)	44
III. BANKING ASSETS	31,491	33,445	1,954
A. TOTAL ASSETS	32,508	33,489	981
1. Fixed assets, intangibles, investments	30,577	30,755	178
2. Value adjustment	0	0	0
3. Liquid assets	3	1	(2)
4. Other assets	1,928	2,733	805
B. PROVISION FOR BANKING ASSETS	(1,017)	(44)	973
IV. PREPAID EXPENSES / ACCRUED INCOME	247,746	240,027	(7,719)
O/w: Interest and interest related income on assets representing foreign currency reserves	62,900	47,493	-15,407
V. TOTAL ASSETS (I+II+III+IV)	5,930,455	6,375,822	445,367
LIABILITIES			
VI. LIABILITIES IN FORINT (1+2+3+4)	1,807,975	2,316,338	508,363
1. Central Government deposits	93,416	245,702	152,286
a) Deposits within 1 year	93,416	245,702	152,286
b) Deposits over 1 year	0	0	0
2. Deposits of credit institutions	634,658	1,102,396	467,738
a) Deposits within 1 year	634,658	1,102,396	467,738
b) Deposits over 1 year	0	0	0
3. Liabilities from money issue and circulation	736,280	951,744	215,464
a) Banknotes and coins in circulation	735,998	950,318	214,320
b) Items in transit	282	1,426	1,144
4. Other deposits and liabilities	343,621	16,496	(327,125)
a) Deposits within 1 year	342,487	15,853	(326,634)
b) Deposits over 1 year	1,134	643	(491)
VII. LIABILITIES IN FOREIGN CURRENCY (1+2+3)	3,835,382	3,863,315	27,933
1. Central Government deposits	100,658	310,062	209,404
a) Deposits within 1 year	6,320	14,686	8,366
b) Deposits over 1 year	94,338	295,376	201,038
2. Deposits of credit institutions	473,013	296,309	(176,704)
a) Deposits within 1 year	358,622	182,644	(175,978)
b) Deposits over 1 year	114,391	113,665	(726)
3. Other foreign currency liabilities	3,261,711	3,256,944	(4,767)
a) Liabilities within 1 year	46,982	148,281	101,299
b) Liabilities over 1 year	3,214,729	3,108,663	(106,066)
VIII. PROVISIONS	68,476	7,642	(60,834)
a) For liabilities	68,476	7,642	(60,834)
b) Other	0	0	0
IX. OTHER BANKING LIABILITIES	4,122	(44,934)	(49,056)
X. ACCRUED EXPENSES / DEFERRED INCOME	154,768	167,097	12,329
XI. EQUITY (1+2+3+4+5+6)	59,732	66,364	6,632
1. Share capital	10,000	10,000	0
2. Capital reserve	89	0	(89)
3. Retained earnings	45,500	56,216	10,716
4. Valuation reserve	0	0	0
5. General reserve	4,143	0	(4,143)
6. Profit per balance sheet	0	148	148
XII. TOTAL LIABILITIES (VI+VII+VIII+IX+X+XI)	5,930,455	6,375,822	445,367

Source: NBH

PROFIT AND LOSS ACCOUNT OF THE NATIONAL BANK OF HUNGARY, 1999

Ft millions

I N C O M E	1998	1999	Difference
I. FORINT INTEREST AND INTEREST RELATED INCOME	141,629	114,828	(26,801)
1. Interest income on receivables from the Central Government	117,137	97,063	(20,074)
a) On receivables within 1 year	78,115	63,033	(15,082)
b) On receivables over 1 year	39,022	34,030	(4,992)
2. Interest income on receivables from credit institutions	23,552	17,160	(6,392)
a) On receivables within 1 year	1,929	1,489	(440)
b) On receivables over 1 year	21,623	15,671	(5,952)
3. Interest income on other receivables	172	254	82
a) On receivables within 1 year	6	2	(4)
b) On receivables over 1 year	166	252	86
4. Interest related income in forint	768	351	(417)
II. FOREIGN CURRENCY INTEREST AND INTEREST RELATED INCOME	491,721	514,547	22,826
1. Interest income on foreign currency reserves	113,288	117,712	4,424
2. Interest income on receivables from the Central Government	149,143	137,307	(11,836)
a) On receivables within 1 year	0	0	0
b) On receivables over 1 year	149,143	137,307	(11,836)
3. Interest income on receivables from credit institutions	526	524	(2)
a) On receivables within 1 year	8	39	31
b) On receivables over 1 year	518	485	(33)
4. Interest income on other receivables	15,935	13,697	(2,238)
a) On receivables within 1 year	14,742	12,710	(2,032)
b) On receivables over 1 year	1,193	987	(206)
5. Interest related income in foreign currency	212,829	245,307	32,478
III. INCOME RESULTING FROM EXCHANGE RATE CHANGES	182,134	101,941	(80,193)
1. Gain on foreign currency translation	133,375	81,515	(51,860)
2. Gain on foreign currency conversion	48,759	20,426	(28,333)
IV. INCOME FROM MONEY CIRCULATION	934	1,309	375
V. OTHER INCOME	25,943	5,852	(20,091)
1. Commission and fees received in forint	1,457	367	(1,090)
2. Commission and fees received in foreign currency	1,053	2,094	1,041
3. Ordinary and extraordinary income not included above	23,433	3,391	(20,042)
VI. PROVISIONS RELEASED / USED	77,425	76,600	(825)
VII. OPERATING INCOME	1,485	1,969	484
VIII. TOTAL INCOME (I+II+III+IV+V+VI+VII)	921,271	817,046	(104,225)
E X P E N S E S			
IX. FORINT INTEREST AND INTEREST RELATED EXPENSES	232,088	143,984	(88,104)
1. Interest expenses on Central Government deposits	43,791	32,229	(11,562)
a) On deposits within 1 year	43,791	32,229	(11,562)
b) On deposits over 1 year	0	0	0
2. Interest expenses on deposits of credit institutions	128,850	95,589	(33,261)
a) On deposits within 1 year	128,850	95,589	(33,261)
b) On deposits over 1 year	0	0	0
3. Interest expenses on other deposits	58,369	16,077	(42,292)
a) On deposits within 1 year	58,310	16,075	(42,235)
b) On deposits over 1 year	59	2	(57)
4. Interest related expenses in forint	1,078	89	(989)
X. FOREIGN CURRENCY INTEREST AND INTEREST RELATED EXPENSES	448,762	504,641	55,879
1. Interest expenses on Central Government deposits	8,286	9,135	849
a) On deposits within 1 year	165	257	92
b) On deposits over 1 year	8,121	8,878	757
2. Interest expenses on deposits of credit institutions	14,954	18,985	4,031
a) On deposits within 1 year	7,290	12,287	4,997
b) On deposits over 1 year	7,664	6,698	(966)
3. Interest expenses on other liabilities	204,374	199,256	(5,118)
a) On liabilities within 1 year	710	2,932	2,222
b) On liabilities over 1 year	203,664	196,324	(7,340)
4. Interest related expenses in foreign currency	221,148	277,265	56,117
XI. EXPENSES RESULTING FROM EXCHANGE RATE CHANGES	45,708	28,217	(17,491)
1. Loss on foreign currency translation	0	0	0
2. Loss on foreign currency conversion	45,708	28,217	(17,491)
XII. EXPENSES RELATED TO MONEY CIRCULATION	5,969	3,896	(2,073)
XIII. OTHER EXPENSES	32,682	70,159	37,477
1. Commissions and costs recorded in forint	12	3	(9)
2. Commissions and costs recorded in foreign currency	6,575	4,847	(1,728)
3. Ordinary and extraordinary expenses not included above	26,095	65,309	39,214
XIV. PROVISIONS	122,110	16,330	(105,780)
XV. OPERATING COSTS AND EXPENSES	13,840	14,467	627
XVI. TOTAL EXPENSES (IX+X+XI+XII+XIII+XIV+XV)	901,159	781,694	(119,465)
XVII. PROFIT FOR THE YEAR	20,112	35,352	15,240
XVIII. DIVIDEND PAYMENT FROM RETAINED EARNINGS	0	0	0
XIX. DIVIDEND PAID	20,112	35,204	15,092
XX. PROFIT PER BALANCE SHEET (XVII+XVIII-XIX)	0	148	148
XXI. GRAND TOTAL (XVI+XVII)	921,271	817,046	(104,225)

Source: NBH