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ECONOMIC REVIEW OF INDIVIDUAL
EASTERN EUROPEAN COUNTRIES

HUNGARY

Note by the Chairman of the
Committee of Economic Advisers

Within the framework of the third series of studies on economic developments in individual Eastern European countries, the Sub-Committee on Soviet Economic Policy held on 30th October, 1969 a special session devoted to Hungary with the participation of experts from various capitals(1).

2. The Committee of Economic Advisers, after considering the report by the Sub-Committee, thought that the Council might be interested in the result of this review, in particular as an illustration of its report recently submitted to the Council on the re-examination of the activities of the Committee and its Sub-Committee(2).

(Signed) Y. LAULAN

NATO,
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- (1) For a summary record see AC/89-D/68
(2) C-M(70)2

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ECONOMIC REVIEW OF EASTERN COUNTRIES

HUNGARY

Report by the Committee of Economic Advisers

SUMMARY AND CONCLUSIONS

1. Despite its small size and population, limited resources and restricted domestic market, Hungary has managed, through the originality of its ideas and the caution with which it has put them into practice, to be a pioneer within the Communist bloc. With an estimated per capita GNP estimated at \$1,230 in 1967, it appears to have attained an intermediate level of economic development. Its programme of reforms combines flexibility with firmness and is the boldest and at the same time most realistic in Eastern Europe. In this nation with a long-standing tradition of land-holding, industry now accounts for 57% of the national income, and capital and consumer goods make up half the country's exports. Hungary is very largely dependent on foreign trade and has initiated new forms of co-operation with the West, which may play a larger part in the future (paragraphs 1-3).

2. For some years, and especially since the introduction of the New Economic Mechanism on 1st January, 1968, Hungary has been trying to establish a programme of reforms. This programme is intended to create a more competitive economy and a more effective planning system by relying to a greater extent on market forces and monetary incentives and by delegating to enterprises the power to take routine management decisions. However, it appears that a more realistic price system - a matter of crucial importance - will take some time to come about and for the present the central authorities still retain very extensive powers in all sectors of the economy (paragraphs 4-23).

3. The Hungarians had the good sense to draw up their programme of reforms in close consultation with their COMECON partners and to entrust its implementation to highly qualified and pragmatically inclined senior officials. They had the advantage over Czechoslovakia of a comparatively stable political situation which helped to allay the suspicions of neighbouring countries.

4. When the New Economic Mechanism was introduced on 1st January, 1968, some observers felt that 1968 would be a year of economic instability and that prices and unemployment would rise as centralised control over the economy was relaxed. Generally speaking, however, the economy has developed as planned. None the less, and although it is premature to pass final judgement on the reforms, a number of problems and difficulties have already arisen during the first two years.

5. In 1968, the growth rates, although more or less conforming to the Plan, were generally lower than those for the previous year. National income and industrial output each increased by only 5%, as against 9% in 1967. These figures rose 5% and 3% respectively in 1969. There was no serious unemployment and no inflation. Although agriculture suffered a setback because of the drought, gross agricultural production increased by 1.1% in 1968 and 5-6% in 1969. The total income of the population increased by 8% in 1968 and by 9% in 1969 and although the standard of living has risen, increased private savings indicate a considerable shortage in the supply of consumer goods (paragraphs 24-54).

6. Foreign trade is an important factor in the economic progress of a small country with limited resources like Hungary. This is well illustrated by the fact that exports represent some 9.9% and imports some 10.3% of the Net Material Product (paragraphs 55-56). About 70% of its foreign trade is carried on with the Communist countries, over half of it with the Soviet Union, and less than a quarter with the industrialised West, the share of NATO countries being 17.4% (paragraphs 57-61). Hungarian exports cover fairly evenly the four main commodity groups: raw materials, fuels and semi-finished products; machinery and equipment; industrial consumer goods and foodstuffs. Most of her exports to the West consist of foodstuffs. More than half Hungary's imports are made up of fuels, raw materials and semi-finished products (paragraphs 62-63).

7. A thorough-going reorganization of foreign trade procedures took place in connection with the New Economic Mechanism. The main innovation is a system of export incentives and import controls intended to boost the profitability of international trade, and above all of exports. It would seem that the economic regulators have had some effect after two years' operation: Hungary's trade balance has shown a big improvement and had even an export surplus in 1969 with both Western and socialist countries (paragraphs 64-66).

8. Proposals for closer economic co-operation with the other Communist countries have been put forward by Hungarian economists. Such co-operation already exists in a number of forms covering a wide variety of joint production, investment and marketing agreements (paragraphs 67-70).

9. Hungary has also concluded more co-operative agreements with the industrialised West than any other Communist country. The main purpose of these wide-ranging and varied agreements is to improve the quality of goods produced both for home consumption and export. As a result, Hungary is less dependent on Western credits than the other COMECON countries, and its

medium and long-term debts to NATO countries did not exceed 119.3 million dollars at the end of 1968. The country has, however, obtained Euro-dollar facilities and a \$15 million loan on the London market for its aluminium industry (paragraphs 71-75).

10. It would be unwise to attempt to forecast the long-term effects of the reform on foreign trade. The persistent disequilibrium of their balance of payments with the West was a direct encouragement to the Hungarians to intervene in this field in order to promote exports to the hard currency areas. The main aim is to change the pattern of their international trade by reducing the share of agricultural products and increasing that of industries such as precision engineering, which employ a large proportion of highly qualified personnel. The developments noted in 1969 are very positive in this respect. However, production capacity is still limited and the greater part of the country's foreign trade is carried on with its Communist partners. The Soviet Union will probably remain Hungary's main supplier of raw materials and, with the other COMECON members, will continue to provide a steady and virtually unlimited outlet for Hungarian goods, which are still most uncompetitive in the West. Again, Hungary is closely tied to the Soviet Union and the other COMECON countries by long-term co-operative agreements which strengthen Hungary's economic links with, and dependence on, the Communist bloc.

11. It is still too early to pass judgement on the reform programme and it would be pointless to expect spectacular progress in the immediate future. The Hungarians have been content to lay down the framework of a more competitive economy. This in itself has meant calling into question preconceived ideas and making a difficult choice between the desirable and the attainable, between political and economic necessities, without losing sight of the fact that the maintenance of Party control is of paramount importance. The latter consideration may have a constraining effect on the development of new forms of business organization. The reforms will ultimately be judged by their success in raising the standard of living and especially in developing the key factor in the Hungarian economy, foreign trade. In this respect, the first results for 1969 are encouraging.

12. It remains to the advantage of the West to seek ways of fostering its trading relations with Hungary. The contacts which have grown up as a result of the various co-operative agreements signed during the last five years are likely to expand. They will enable Hungary to import the capital goods and advanced technology which are essential if her products are to be competitive on world markets. Consequently, NATO countries might be well advised to continue helping Hungary to assert her national interests by pursuing an economic policy sufficiently flexible to allow them to take advantage of any opportunities offered by developments in Hungary's external relations.

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ECONOMIC PROFILE OF HUNGARY

	Hungary	Albania	Bulgaria	CSSR	Zone	Poland	Rumania
Area (sq. km)	93,030	28,748	110,912	127,869	67,901	312,520	237,500
Population:	10,256,000	2,019,000	8,370,000	32,305,000	19,721,000	14,362,000	16,002,000
Net annual rate of increase	0.34%	2.8%	0.7%	0.6%	- 0.2%	1%	0.6%

National Income

Net Material Product: 202.2 milliard forints in 1967
 of which: Industry and Building: 57.3%
 Agriculture and Forestry: 20.6%
 Transport and Communication: 4.8%
 Trade: 6.4%
 Other: 0.9%

Growth by Sector

	1961-1965	1968	1969(realised)	1969 (plan)
National income	25%	9%	6%	5-6%
Gross industrial production	47%	5%	3%	6%
Building	35%	6%	6-7%	6-7%
Gross agricultural production	10%	1%	5-6%	2-3%
Employment	13%	3.8%	3%	2.5%
Industrial productivity	27%	1.1%	-	3.5%
Real income per capita	22%	5-5.5%	6-7%	4-5%

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Defence budget as % of NMP (1968): 2.9%

Foreign Trade (1968)

Imports (c.i.f.): 21,163 million forints
Exports (f.o.b.): 21,004 million forints
Foreign Trade per capita: \$350.9
Trade with the Soviet Union: 37.1%

Trade with other Communist countries: 33%
Trade with the industrialised West: 24.7%
Trade with developing countries: 5.2%

National currency

Official exchange rate: \$1 = 11.74 forints

Tourist exchange rate: \$1 = 30 forints

Commercial exchange rate: \$1 = 60 forints

{ 1 rouble = 40 forints

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ECONOMIC REVIEW OF EASTERN COUNTRIES

HUNGARY

Report by the Committee of Economic Advisers

INTRODUCTION

1. Hungary is the smallest of the Warsaw Pact countries (93,030 sq.m) and its population of nearly 10.3 million inhabitants is less than that of any other Eastern European country except Albania and Bulgaria. With an estimated per capita GNP of \$1,230 in 1967(1) Hungary has attained an intermediate level of economic development. While it comes behind most of the NATO countries on this score, it is preceded, among the European Communist countries, only by the Soviet Zone of Germany, Czechoslovakia and the USSR. Politically, it has been relatively stable since the advent of the Kadar régime.

2. In many respects, however, Hungary can be considered as a pilot country in the Communist world. It is in the forefront of the economic reform movement; it conceived the boldest of the programmes and has applied it with more perseverance, caution and apparent success than any other of its partners. Traditionally an agricultural country, it has built up a viable industrial sector, and sales of capital goods currently account for one quarter of its aggregate exports. Probably because it is heavily dependant on foreign trade, given its limited mineral resources and small domestic market, Hungary has devised new forms of co-operation both with the East and with the West.

3. The present report is designed to show recent economic trends and future prospects in Hungary by examining in turn economic reforms, the domestic economy and external economic relations.

I. ECONOMIC REFORMS(2)

4. Over the past few years, and more particularly since the introduction of the economic reforms on 1st January, 1968, Hungary has been striving to establish a better balance between supply and demand. This is the main purpose of the changes made in management and planning methods. The reforms are

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- (1) However, the methodology used in Hungarian statistics does not correspond to the Western concept of the Gross National Product. In their estimates of the latter, Western experts differ considerably as a consequence of the discrepancy in the methods of calculation. It should be noted that, in 1964, the only year when the Hungarian Authorities assessed their GNP in accordance with the Western concept, the figures reached by the Joint Economic Commission of the United States Congress, the French Ministry of Defence and the Hungarian services were \$11.7 milliard, \$6.8 milliard and 7.1 milliard respectively. This estimate therefore is merely tentative. The Committee intends to examine shortly the various methods of evaluation of the GNP.
- (2) For a more detailed analysis see Annex I.

generally designed to create a more competitive economy and a more effective planning system by making greater use of market forces and monetary incentives and by delegating ordinary operational management decisions to the enterprise. The fundamental problem is to insert market mechanisms into a system of centralised planning, and to increase the autonomy of enterprises while enforcing compliance with government defined priorities. This at least is the principle, but in the early stages of implementation it is obvious that the State must retain very considerable powers.

5. The principle that decision must be taken at the most appropriate level has freed the central authorities from the need to plan all aspects of enterprise activity directly and by administrative means. In the future, enterprises will be required to give more consideration to profitability and market trends when taking decisions. Government action in future will be directed towards the control of market forces. Enterprises now make their own plans independently and it is for the respective ministry to ensure that the plans of the enterprises within its jurisdiction are consistent with State economic policy. This is the essential difference between the Hungarian reforms and those introduced in the Soviet Union where, for the time being, enterprises enjoy much more limited independence.

The autonomy of the enterprise

6. Enterprises should in future have greater freedom in the formulation of their wage, investment and production policies. They are no longer directly subordinated to the central authorities and to detailed State planning. It is interesting to note that the Hungarian reformers, unlike their counterparts in the USSR, the Soviet Zone of Germany, or Poland, have made no distinction between heavy and light industry in so far as autonomy is concerned. Likewise, the so-called trusts (associations of enterprises) do not play the part of intermediary planning organs as they do in Poland or in the Soviet Zone. Their activity is confined to joint investment and to the co-ordination of scientific and technical policy. In principle, the decisions of the enterprise are governed by the profit motive; administrative directives have thus been replaced by the system of profit-sharing.

7. In the initial phase, the enterprise will keep 12-15% of its profit; this proportion will subsequently rise sharply to 50%. The State's share will then be about the same as in some Western countries. The amount left to the enterprise is used to establish a profit-sharing fund, a development fund to finance new investments and a contingency reserve fund. The system of material interest introduced in Hungary is much bolder and gives the enterprise a higher degree of economic independence than the system in force in the USSR, although it is also only at the experimental stage. Although the State fixes basic wages, the enterprise can use the profit-sharing fund either for wage increases during the year or for end-of-year bonuses.

8. Under the system effective during the first year of implementation of the reform, these bonuses could amount to 80% of the annual salary for top management, 50% for technical personnel and 15% for workers. Directors' emoluments varied in proportion to the results obtained. What is more, in the event of a deficit, salaries of top management were guaranteed only up to 75%, those of administrators and technicians up to 85%, whereas workers' wages were guaranteed in full. The reason for differentiating the shares was to make the income of those members of the staff who have a more direct influence on the profits depend to a great extent on fluctuations in these profits. But the creation of three categories of enterprise staff caused dissatisfaction and therefore impeded any increase of incentive, which was the aim of the system. The new regulations, approved last December but retroactively in force as from 1st January, 1969, provide for the abolition of categories and grant to the enterprise managers and trade unions a much freer hand in the determination of how the profit-sharing fund is to be distributed. Only two factors have to be taken into account: the basic wage and the length of service with the enterprise. A uniform basis for calculation for all the degrees of the hierarchy will be determined by collective agreements, although there can be financial differentiation between factory units and workshops according to their contribution to the enterprise achievements and provided that the amount payable does not exceed 25% of the annual wage fund. For people in top positions and those members of the staff who, because of their duties or sphere of activity, have a determining influence on the enterprise results, a system of profit premiums is introduced, depending on profits and on the development of the personal income of all workers in the enterprise. The rule remains that the basic salaries of these people can be reduced in the case of loss-making management. This category will be laid down in the collective contract and the reduction will in future be 15% uniformly. The trade unions' rôle will increase in importance since they have rights in the sphere of working conditions, the management being obliged to make a legally binding contract with its employees. On the other hand, the workers have no say in the running of the enterprise; there will be no worker councils as in Yugoslavia and the nomination of directors and senior managers will continue for the present to be a government prerogative.

Market regulators

9. The State protects the interests of the community by using market regulators in the form of taxation, public investment and credit. Through its taxation policy, it tries to ensure that the enterprise operates efficiently. Particularly important has been the extension to all enterprises of the 5% tax on fixed and working capital which is designed to promote the more rational use of means of production; managers are thus encouraged to reduce their surplus production capacities. Turnover taxes are retained to manipulate prices, but their importance will decrease as prices more accurately reflect costs.

10. Investment and credit policies assume more importance under the new system. Though provision is made for self-financing and the increased use of bank credits, the Government still determines the aggregate volume of investment and its distribution among the various sectors of the economy. The powers allocated to the enterprise in this sphere are increasing. Before the reform, less than 10% of investment credits for industry and building came from the enterprise itself but, in future, it will provide half the cost of its investments. It will be authorised to write down or renew its plant and fund extensions of secondary importance (the increase in output capacity in the branch concerned should not exceed 25-30%). However, the general pattern of development is still dictated by the central planners, directly through large-scale investments which must be made by the State, or indirectly through credit policy.

11. The importance of the banking system and of credit should increase considerably. Before the reform, the banks had no independence whatsoever and loans were granted in the light of the indices assigned to the enterprise under the Plan. Though banking establishments continue to act on the guidelines laid down by the Government, they now have a fair measure of freedom, particularly with regard to short-term loans, the criteria for which should become very similar to those applied in the West. In theory, credits may only be granted to enterprises which make a profit and as a general rule, deficits must be covered from the reserve fund. Banks may, however, make loans to meet special working capital requirements which would normally be financed from the development fund. The terms on which the loan is granted and the rate of interest are fixed in the light of the credit-worthiness of the enterprise and the speed with which the funds circulate, and loan applications may even be refused. Banks may also grant investment credits to enterprises on the basis of estimated profitability within the framework laid down by the Plan or (particularly during the transition period or if the investment is of major importance) make an advance against anticipated profits. The basic criteria are the scheduled period of repayment, the volume of the enterprise contribution from its own funds and compliance with the overall aims of the economy. This selective credit policy is worked out in conjunction with the appropriate national services. The interest rate, which is a means of influencing the situation, is set by the Government but there are exceptions to the general rule. A credit policy council has been set up with representatives from banks as well as specialists from industry, agriculture, trade and planning, price and wage experts.

12. Thus, while the modifications to the method of financing investments have been generally designed to increase their effectiveness, there is no question of any encroachment on the principle of respect for government-defined priorities. The same holds true of prices and wages which are the key factors in the control of domestic consumption.

13. A check is being kept on wages with a view to linking increases with rises in labour productivity. Upper and lower limits are set by the State which also fixes the average worker's wage payable by an enterprise; this average may be raised if profits rise. Management has more scope to vary wages when the work done is of a more skilled nature. According to new regulations effective as from 1st January, 1970, the amount paid in excess of the average planned wage will only partly (70%) be charged to the profit-sharing fund and not totally as before; the balance will be deductible from profit charge. This is an incentive to increase wage levels.

14. The price reform is designed to bring industrial and agricultural prices, prices on the home market and export prices gradually into line, the purpose being that they should reflect production costs and the charge on services while complying with Government economic policy and the law of supply and demand. Three categories of prices have been established: officially fixed prices, maximum prices, and free prices. The first two categories include 70% of raw material and semi-finished product prices, 60% of agricultural prices and 50% of consumer goods prices. In spite of the increased influence of market forces, subsidies are still widespread and the position is still much the same as it was before. An important aspect of reform is the raising of agricultural procurement prices to ensure the financial independence of co-operatives and to bring agricultural and industrial price levels more into line. The complete freeing of prices in the current market situation, which is still dominated by shortages in a number of spheres, would lead to extremely steep increases. A measure of this kind could only be introduced very gradually and the Hungarians themselves expect that it will take ten to fifteen years to evolve a pricing system which reflects supply and demand accurately, a sine qua non for the success of the reform.

Agricultural reforms

15. The agricultural reforms, like those in industry, are based on the principles of increased self-management and financial independence with the State exerting indirect control by means of certain economic levers. The reforms began in the latter half of 1965 with a reduction in the number of obligatory requirements imposed on State farms; the only compulsory target remaining relates to the areas sown with bread grains. Other measures followed, and in 1968 co-operatives were allowed to sell direct to the home market, and even, in some cases, to foreign markets. Agricultural prices, generally accepted as being too low, were raised by 9% in 1966, as part of the general price reform and by 8% in 1968 when tax concessions to help the weaker co-operatives were also introduced. In 1966, assets were revalued and amortisation, wage and development funds established for the purpose of increasing the volume of self-financed investment. As from 1st January, 1968, wages and amortisation have been calculated as costs, which means that, with the establishment of profit-sharing funds, most co-operatives are now able to guarantee up to 80% of the average monthly wage.

16. To help the employment situation, a decree in 1967 extended the scope of co-operative farms' ancillary activities to include machine maintenance and repair, the production of building materials, packaging and transport. To prevent too much decentralisation of decision-making and to co-ordinate the activities of co-operatives, regional co-operative associations have been set up. Apart from these purely economic reforms, several social reforms have been initiated since 1966 to improve living conditions and to reduce the labour exodus. These have included improved pension conditions and family allowances.

17. In 1968, the State introduced a new co-operative law to regulate the rights and duties of co-operative members and a new land law. An important change under the new co-operative law is that all members are entitled to a private plot whereas previously only one plot for each family was allocated. In addition, the size of the household plot is now related to the amount of collective work done.

Reorganization of foreign trade

18. Foreign trade being of vital importance for the Hungarian economy, one of the objectives of the reform is to direct industrial output towards export markets, by removing detailed central control and allowing economic factors, such as market forces, prices and credits, to influence decisions affecting trading activities.

19. Under the new system, the detailed and compulsory export targets previously laid down for each enterprise are replaced by various incentives. The choice of market is now left to the producer, who can sell either at home or abroad without needing to refer to the foreign trade corporations which formerly acted as agents on behalf of the Ministry of Foreign Trade. This should have the effect of making the producers responsible for the financial success of their exporting activity. Government subsidies, however, will continue to be paid, in order to assist some of the less competitive enterprises to adjust to the new conditions, but this is regarded as a purely temporary expedient for a transitional period. Domestic industry is also protected to some extent by a three-tier customs tariff, with a preferential rate for the developing countries, the MFN rate for the Communist bloc and most Western countries, and the full rate for Portugal, South Africa and the United States.

20. The right to export independently (i.e. without dealing through foreign trade corporations) was granted initially to a number of large enterprises occupying a dominant position in a given sector and already exporting a large proportion of their output. Some commercial enterprises may also be allowed to deal direct with firms abroad. Some 80 or more manufacturing and commercial enterprises at present enjoy this right, although the central authorities retain the power to withdraw the concession if need be.

21. Another export incentive is the system of multiple exchange rates applicable to Western currencies and the rouble. The value of imported goods is now converted into domestic forints and multiplied by a coefficient that varies according to the nature of the goods, weighted so as to penalise the buyer. Export prices are likewise subject to a coefficient, but one that favours the producer. By means of this device, the reformers want to encourage exporters to maximise their returns and induce importers to be more selective in placing orders with foreign firms.

22. Just as producer enterprises are free to select outlets for their products, so user enterprises may diversify their sources of supply by buying on the domestic market or abroad. In the latter case, the enterprise itself must finance its imports, either from its foreign exchange earnings or through bank loans. As part of a strict import selection policy intended to curb any excessive demand for Western plant and machinery which would have an adverse effect on the balance of payments situation, quotas were introduced, customs tariffs were modified and an import-deposit scheme was initiated in 1968.

23. Foreign exchange continues to be strictly controlled by the National Bank, and all foreign exchange earnings must be remitted to the Bank, which then credits the enterprise with the equivalent amount in forints. Allocation of foreign currency for imports is decided by the Foreign Trade and Investment Banks, and authorised through the National Bank. Exporting enterprises are entitled to deposit a proportion of their profits with a bank, from which they obtain a 4% yield. These deposits may then be borrowed by other enterprises, so that in this way the Hungarian economy has acquired a flexibility and originality which give it the edge over the rest of the Communist bloc.

II. INTERNAL ECONOMIC DEVELOPMENT

A. General

24. The industrialisation of Hungary which has been going on since 1945, has extensively changed the economic pattern of a traditionally agrarian society. Before the Communist takeover, the economy was essentially agricultural and textiles and food processing were the main industries although some progress had been made during the war in the iron and steel, machine building and chemical industries. Under the Communist régime, industrialisation has gone ahead much faster. There is now a heavy industry and the production of coal, steel, bauxite and crude oil has been extensively developed while the chemical industry has made great strides. Industry now provides 57% of the national income as against 45% in 1950 and it employs 33% of the labour force (41% if the building industry is included). Over the same period the contribution of agriculture to the national income has dropped

from 37% to some 18%, and in recent years this sector has employed a smaller proportion of the labour force than industry (less than 30%). Finally, it is significant that for this transitionally agricultural country 27% of all exports are today accounted for by capital goods and 24% by industrial consumer goods.

Population

25. Hungary's population of 10,256,000 at 1st January, 1968 (density 110 per sq.km) was the smallest of all the East European countries with the exception of Albania and Bulgaria, and it is increasing extremely slowly (an average of 0.34% each year between 1960-68). While the death rate has remained fairly stable (it dropped from an average of 10.8 to 10.2 between the two decades) the birth rate, apart from a sudden leap in the early fifties when abortion was temporarily prohibited, has fallen continuously since then to a low of 13.1 per thousand in 1965. However, in more recent years the birth rate has increased again to 15.4 per thousand in 1968. This new tendency can be explained by two factors: girls born during the post-war years of high birth rate have reached child-bearing age; moreover, since 1965 measures have been taken to favour a rise in birth rate. In 1967 there were 1,069 women for 1,000 men in Hungary. The working population is estimated at 5,090,000 persons (49.8% of the total figure), of whom 1,490,000 are engaged in agriculture. The drift to the urban areas has slowed down slightly as living accommodation has become more scarce and townfolk now represent 40% of the total population. Finally, according to Western calculations, 3,350,000 persons of Hungarian origin were living in neighbouring countries at the beginning of 1968 (particularly in Rumania, Czechoslovakia and Yugoslavia).

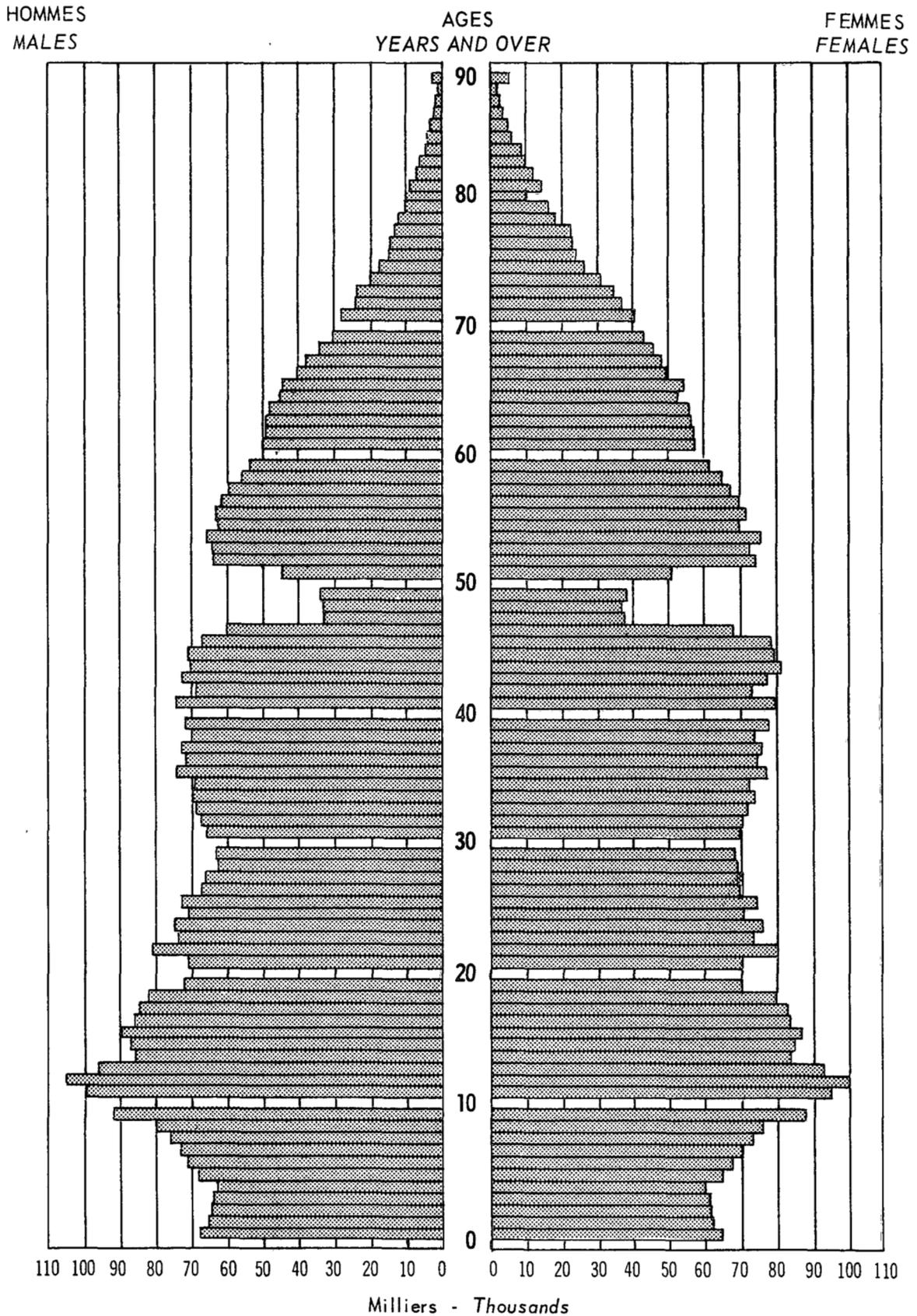
Productivity and Investment

26. One of the chronic weaknesses of the Hungarian economy lies in inadequate productivity; more than half the expansion achieved can be put down to the rise in employment. In the early days, industry drew heavily on the country's abundant labour reserves but, as the available reserves had begun to decrease and as the means of production were ageing, economic activity slackened off considerably by the end of the 1961-65 five-year period. The upward movement in production is henceforth dependent on a rise in productivity, which is one of the main aims of the economic reforms and which requires fresh investment and recourse to Western technology.

27. In this connection, after a sharp fall-off early in the sixties, investments rose again between 1966 and 1968, the annual growth rate going up from an average of 4.5% in the second five-yearly period to the current figure of 7.4%. The share of investments in the national income has risen continuously, from 26.1% between 1956 and 1960 to 29.4% between 1961 and 1965 and to 32.6% over the last three years. Although agricultural

GRAPHIQUE I - CHART I

PYRAMIDE DES AGES ET REPARTITION DES SEXES EN HONGRIE AU 1er JANVIER 1967
POPULATION BY AGE AND SEX - 1 JANUARY, 1967



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investments, which were at a very low level (13.8%) in the early fifties, have been greatly increased to the point where they represent almost 20% of the total, industry is still the main recipient of investment funds. The bulk of them goes to the development of the chemical and engineering industries and to speeding up the harnessing of national power resources. There is a large gap between demand and the production capacity of the building and building material industries, and there has always been a high proportion of unfinished projects (42,325 million forints in 1967).

Natural Resources

28. Industrialisation has been a patient struggle against poor mineral and power resources. The country has rich deposits only of bauxite and lignite. The latter has been affected by the general run-down in the coal industry, pits have been closed and colliery workers have had to be found new jobs. The difficulties of extraction make the yearly output of 30 million tons an expensive operation. There are sufficient quantities of bauxite and production of refined aluminium would be profitable if electric power were more plentiful. The bauxite is sent to the Soviet Union, returned in the form of ingots to Hungary and then processed. The discovery of oil and natural gas in southern Hungary will give a boost to industry and liquid fuel is gradually replacing coal's importance as a power source. However, there would not seem to be a big future for the oil deposits and the use of natural gas (the production of which has risen from 381 million cu.m to 2,045 million cu.m between 1950 and 1967) would appear a more promising venture. Industrial production has entered a new phase of expansion. At the top of the list come the chemical, engineering and food industries; they are followed by metallurgy and light industry, while mining has the lowest growth rate of all.

The Third Five-Year Plan

29. Compared with earlier Plans, the current five-year Plan (1966-70) contains fewer centrally planned targets, the growth rates are mostly lower and it is less doctrinaire. National income is planned to increase only slightly (19% to 21%, i.e. between 3.5% and 3.9% annually). There will probably be no change in the relative shares of the socialist and private sectors in the national income (96.8% and 3.2% respectively in 1965), and there will be no change in the breakdown of the latter between accumulation and consumption. Gross industrial production should increase from 32% to 36%, i.e. at a rate of 5.7%-6.3% a year and 4/5ths of this increase would be brought about through a rise in productivity. The Plan continues to put the emphasis on heavy industry but priority has been given to the rationalisation and development of the more sophisticated sectors, particularly chemicals (55 to 60%) and machine building (40 to 45%). It is intended that agricultural output will grow more rapidly

(13 to 15% in all, or between 2.5% and 3% annually) than during the 1961-65 period and enable the country to satisfy the home and foreign markets. The need to slow down the drift to the towns is of great importance and with this in mind the State will maintain its more favourable attitude to private plots, and the standard of living of the peasantry will be brought more in line with that of industrial workers. The investment plan - which will absorb 250 to 260 milliard forints as against 202 milliard for the previous five-year period - aims at improving both the capital intensiveness of industry and its regional distribution. It is forecast that industry and building will take up 46 to 50% of all investment while the share of agriculture and the non-productive sectors will decline slightly.

30. At the end of the first four years, it appears that the goals of the current five-year plan will generally be exceeded. They already are as regards national income which increased by 29% between 1966 and 1969. Gross industrial output has risen by 25%, i.e. at an average rate of 6% per year in accordance with the provisions of the Plan. However, the number of employed persons grew to a larger extent than planned; in industry productivity failed to reach the envisaged growth rate; it rose by 3% on average as against the target of 4.5%. The output of the building industry in 1969 was 44% above the 1965 level and exceeded target assigned for 1970. In spite of some bad weather gross agricultural production has increased altogether by 15% and its contribution to the increase of national income in 1969 was higher than in previous years. According to the Plan, there was to be an increase of 9-10% in real wages during the five-year period and of 14-16% in real incomes; in 1969 real wages were 14% higher and real incomes 27% higher than in 1965.

B. Recent economic developments

Evolution in 1966 and 1967

31. In 1966 and 1967 the economy recovered from the low growth of 1965 and aggregate growth was faster than planned (8% and 9% respectively against 3.5-4% planned). Productivity accounted for about three-quarters of the increase in industrial output, costs were lowered and employment increased less rapidly than during the second five-year plan. The increase in industrial output was particularly marked in light industry as a result of the Government's desire to ensure sufficient supplies of consumer goods. On the other hand, there is evidence that the stock of uncompleted investment, which had been reduced in 1965, rose again. In 1967, the situation further deteriorated as a result of the 20% increase in investment. In addition, the Government had undertaken to finance from the budget the cost of completing all enterprise projects more than 80% complete at the end of 1967, and to contribute to the cost of projects more than 20% underway, and

this was clearly an extra spur to investment. Agriculture, encouraged by the price increases of 1966 and other economic and social measures, recovered from the poor returns of 1965, and crop yields were, on the whole, well up on the 1961-65 averages. Poor fodder crops in 1967 created problems in the fattening of livestock however, and imports of meat were necessary.

32. The rises in production and productivity permitted modest increases in the population's income. The effects on consumer spending of the price increases in solid fuels, transport fares and agriculture at the beginning of 1966 were less marked than expected, partly because prices of seasonal goods fell with the good harvest, and because consumer demand shifted from goods whose prices had risen to those whose prices had fallen such as clothing. Increases in earned incomes were supplemented by substantial increases in pensions and family allowances, which particularly benefitted the peasantry and reduced the gap between the income levels of the peasantry and industrial workers. Thus while the real income of workers and employees rose by 5% in 1966 and in 1967, that of the peasantry rose by 7 and 10% respectively.

The past two years

33. When the New Economic Mechanism was first introduced, it was forecast by a number of observers that 1968 would be a time of economic instability and that prices and unemployment would rise significantly as the central control of the economy was relaxed. In fact, however, economic development has proceeded more or less as outlined in the Plan. Thus national income (Net Material Product) rose by 5% in 1968 to 221.2 milliard forints. Whereas results were disappointing in agriculture (+1.1%), the growth rate in industry (+5%) can be considered as satisfactory. Investments increased less than profits due to the bottlenecks still existing in this sector. Considerable efforts were made to keep up the standard of living and forestall inflationary tendencies which could have resulted from the economic reforms.

34. Growth continued at more or less the same pace in 1969 and national income increased by 6% according to the provisions of the Plan. Agricultural output rose sharply (+5 to 6%) owing to excellent harvests whereas industry developed only slowly (+3). As a result of increased profit, the enterprises' development funds increased, but a selective credit policy and the difficulties in the supply of building materials limited the growth of investments. The rise in salaries was more rapid than expected while productivity remained stagnant, and prices did not exceed the limit authorised in the Plan (1.5-2%).

C-M(70)3C. Production by SectorsAgriculture

35. Agriculture is the traditional form of activity in a country where arable land accounts for 60% of the overall area, 15% being covered by forest and 14% given over to pasture. Nevertheless, this sector now employs only 30% of the labour force as compared with the figure of 50% of the entire population employed on the land during the last war. Collectivization was completed in the early 1960s and the socialized sector now controls 97.1% of all farming land. On average, State farms cover an area of 4,700 hectares and co-operatives 1,520 hectares.

36. Agricultural output represents about 25% of the national product. Its share of total exports is over 20% and, in the case of exports to Western countries only, about 50%. The target set by the current five-year Plan is to raise output by 13-15% during the period 1966-70 as compared with the period 1961-65 and, more specifically, to increase vegetable products by 15% to 17% and animal products by 11% to 13%. The annual growth rate should, therefore, average 2.6 to 3% as compared with 2% in the previous period. With this aim in view, 44 to 45 milliard forints have been earmarked for investment in agriculture during the current five-year period. This figure, which is only 10-12% above the level of actual investments in 1961-65, is far from sufficient to make good the delay which has occurred in the supply of agricultural equipment.

37. In 1968, gross agricultural output rose by about 1.1% (as compared with the figure of 3-4% set in the Plan), the shortfall in crop production being offset by better results with livestock. The effect of the drought was less severe than at first expected owing to the wider use of fertiliser and the increase in irrigated areas which produced higher yields even though tractor deliveries did not meet the target figure of 8,000 set in the third five-year Plan and the proportion of obsolete types of tractor in use went up. Vegetables, potatoes and fodder had to be imported but bread cereal requirements were met from domestic output. Meat supplies were plentiful but were the fortuitous result of an unplanned increase in the number of livestock slaughtered because of the drought and the ensuing fodder shortage. Instead of the anticipated improvement in the size of herds, there was a significant fall in the number of cows and sows and this cannot fail to have an adverse effect on supplies for a number of years besides reducing foreign exchange earnings.

38. Agricultural production in 1969 was 5-6% above the 1968 figure instead of the 2-3% planned. According to the latest reports, the wheat harvest will total 3.6 million tons, or 50% more than the average over the preceding five-year period. These results appear to be the consequence of measures taken by the Hungarian Authorities to stimulate agricultural output. The harvest should be sufficient to satisfy domestic

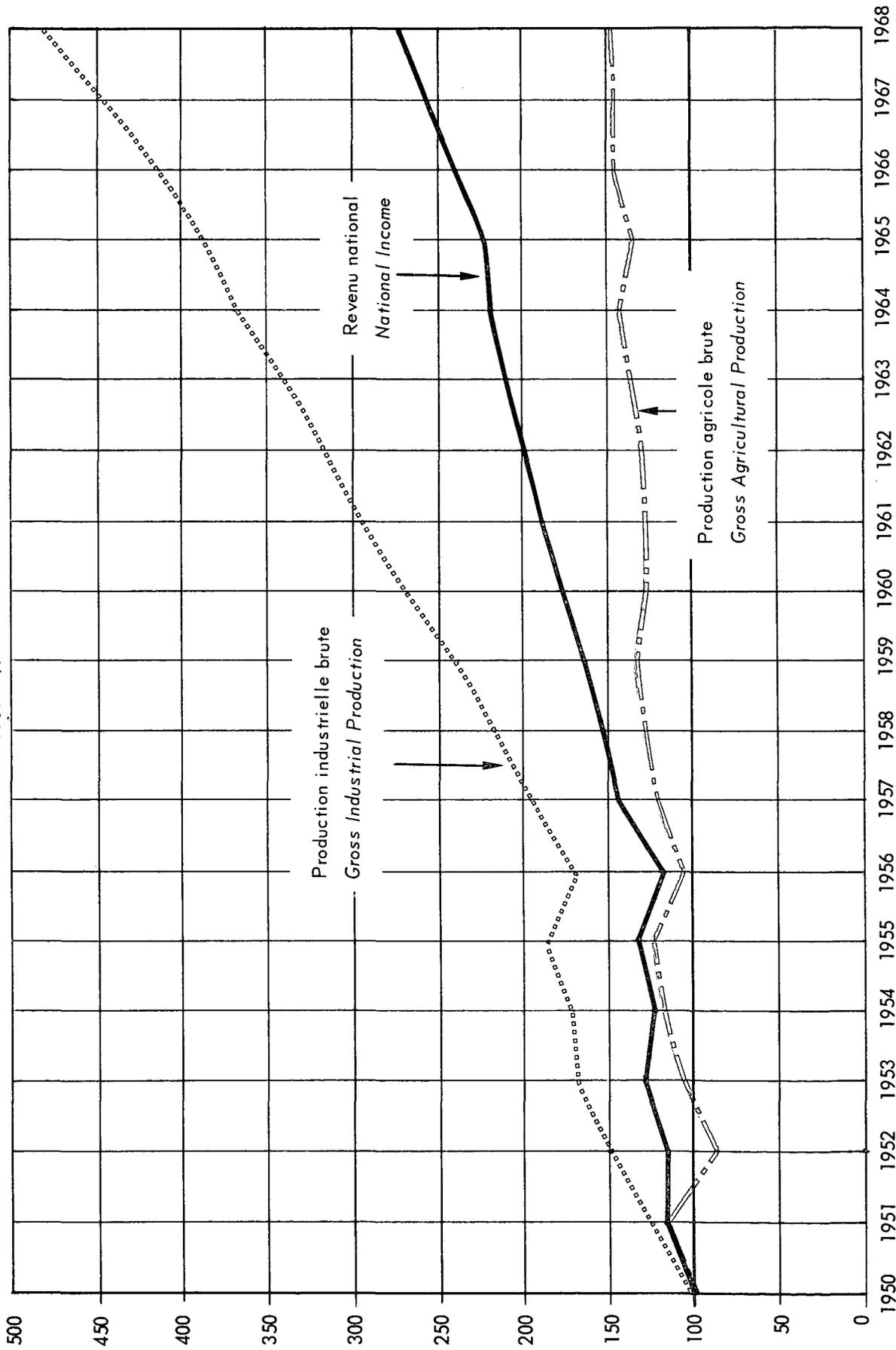
GRAPHIQUE II - CHART II

REVENU NATIONAL, PRODUCTION INDUSTRIELLE, PRODUCTION AGRICOLE

1950 - 1968

NATIONAL INCOME, INDUSTRIAL PRODUCTION, AGRICULTURAL PRODUCTION

1950 - 1968



demand and even to leave an export surplus. This is the third year running in which Hungary has been able to satisfy all its needs and the Canadian wheat imports in 1967-68 (68,000 tons) and in 1969-70 (79,000 tons) seem to be the result of previous commitments entered into within the framework of a long-term wheat agreement. This situation creates a serious storage problem. Should it continue, the Government would have to choose on the one hand between keeping prices at their present level and building the necessary silos and, on the other hand, lowering prices which would lead to a cutback in production. On the other hand, stockbreeding failed to reach the 1968 level, and the continuous decrease of the cow and sow population is specially worrying. Pork production was low and considerable imports have been necessary in 1969 and will still be required in 1970 to meet domestic demand.

39. A measure of improvement in the financial and social conditions of farm workers, such as, for example, the payment of guaranteed wages and higher family allowances as well as the expansion of the ancillary activities of co-operatives have made it possible to safeguard the level of employment but under-employment continues nevertheless to be a problem. Farm managements have found it difficult to provide members with employment for the number of days required to entitle them to social benefits and individual plots. Despite incentives, some 820 "weak" co-operatives have had to be subsidised and in several instances even these subsidies have failed to remedy the situation. In an effort to solve this problem, a decree was published in October 1968 permitting the appropriate authorities either to reorganize the management of these co-operatives in order to make them financially self-supporting, or to encourage mergers with other co-operatives. Since these measures affect nearly 30% of the agricultural co-operatives, agricultural output and export potential should in theory rise.

Industry

40. Although the rate of industrial growth has slackened (5% in 1968 as compared with 8% in 1967), it may nevertheless be regarded as satisfactory given the difficulties involved in the transition to the new system and it is moreover in line with the planning targets. Steady progress has been made in the field of industrial infrastructure. Supplies of energy have improved and at the end of 1968, natural gas and oil accounted for approximately 39% of overall consumption of fuel, the figure which was initially forecast for 1970. The performance of the chemical and engineering sectors again outstripped aggregate industrial output (10% and 8% respectively), reflecting the considerable capital investments of the past few years. Owing to the large stocks of raw materials at the beginning of the year (15% more than in 1967) and increased imports, deliveries to industry were satisfactory on the whole but there was a continuing shortage of certain building materials and the

shortfall of thin sheet, high quality steels and scrap could not be made good. The situation was aggravated by the fact that since the allocation of raw materials is no longer centralised, certain enterprises had built up unnecessarily large stocks in anticipation of a demand which did not always materialise.

41. In 1969, industrial output rose by only 3% but this may be explained by the problems of adapting the production machine to market requirements and by the replacement of quantitative aims by quality criteria following the reforms of the previous year.

Productivity

42. Industrial productivity went up by only 1% in 1968, although its improvement is one of the primary aims of the New Economic Mechanism, and remained at the same level in 1969. This downward trend is due above all to the backward state of Hungarian technology but there are also a number of other reasons. The new labour code allows enterprises to dispense with surplus labour but the Government, in its anxiety to prevent widespread unemployment, placed a ceiling of 4% on average wage increases in 1968. This regulation encouraged enterprises to employ unnecessarily large numbers of workers and to keep wages low. The introduction of a shorter working week in certain industries had similar results. Lastly, the authorities, concerned by the labour shortages in highly industrialised areas, had planned that over half of all new factories between 1966-70 should be located in areas where there was surplus manpower. Consequently, a large number of enterprises moved to the provinces where productivity is lower. The ceiling on wage increases was lifted in 1969 and, from 1970 on, enterprises will have to pay from their profit-sharing fund 30% of any wage resulting from a staff increase; in the opposite case, they will be able to assign to this fund the same percentage of the savings deriving from a staff reduction. This may act as a break on the tendency to employ new labour instead of making more rational use of the existing labour force. Productivity will continue, however, to be the cause of a number of problems and so long as labour is available many enterprises will continue to recruit.

43. The closing down of two small uneconomical enterprises which is unprecedented(1) - and the creation of a joint stock company are evidence that the Government is experimenting with more flexible systems. It has followed the Rumanian example in creating a management training centre under the auspices of the ILO and this may eventually lead to an improvement in management techniques.

(1) The concept of bankruptcy seems to be irrelevant to the functioning of a socialist economy.

Profits

44. One of the main features of the last two years has been the volume of profits made by enterprises: they amounted in 1968 to 64 milliard forints in the case of State enterprises and industrial co-operatives, or 14 milliard more than the planned figure; in 1969 they rose to almost 71 milliard forints, about 11% more than in the previous year, and the upward trend is to continue. The material incentives introduced as part of the economic reforms have contributed in no small part to this result but the safety margin embodied in the 1968 price increases as well as State subsidies, which were higher than needed, were also major contributory factors. It is here that an explanation can be found to the apparent discrepancy between low productivity and the very considerable profits obtained.

Investments

45. Although profits in 1968 exceeded forecasts and although enterprises were allowed greater latitude over investments, the latter did not exceed their anticipated level of 68 to 70 million forints. This figure is 17% higher than in the previous year but the increase is mainly due to the greater cost of building materials. A number of other factors combined to restrict progress in this field. Because of rivalry with State-financed projects, only 40% of the funds accumulated by enterprises in the previous year, were actually invested. The latter were called upon to contribute to the completion of projects launched with State loans in 1967 which were given priority. Lastly, the Government set a ceiling on aggregate bank credits to enterprises and there was sharp competition for the 7.8 milliard forints made available, which fell far short of requirements. On the other hand, surplus stocks rose very rapidly to a total of 15 milliard forints in 1968, but no evidence is available to indicate to what extent these were financed by credits.

46. It was not planned to make any increase in credits to enterprises in 1969 and where these were granted they have been hedged with more stringent conditions to ensure their rational employment. In particular, priority was given to enterprises with high export records and special privileges were granted to those selling to capitalist countries. Development funds exceeded the 1968 level but, because of the extension of taxes on fixed and circulating capital to capital financed by loans, enterprises may have been more reluctant to borrow from the banks. However, the volume of investments exceeded by some 7-8% that of the previous year. The disparity between supply and demand has not eased; the building industry was not able to meet the demand of investors, even with a considerable increase in output, nor did the machinery industry.

D. Standard of Living

47. A special effort was made in 1968 to keep up the standard of living. Towards the end of 1967, large quantities of consumer goods were imported in order to cushion the home market against possible dislocations following the introduction of the reforms and to forestall inflationary strain. As a result stocks were plentiful and, although light industry production progressed by only 2.8%, retail sales increased by 7%. Retail prices which had gone down by 1.5% in January, rose by 2% during the year so that the final December 1968 index was only 0.5% above that for December 1967. Such a small rise was greeted with scepticism by the population, all the more so as certain poorer quality articles had been withdrawn from the market and replaced by better quality and more expensive items, a point which the official calculations ignored. Furthermore, the black market does not seem to be very widespread in Hungary. However, the agricultural co-operatives and their members are entitled to sell their goods directly in the capital, and this facility represents an appreciable source of income.

48. The total income of the population rose by 8%, mainly because of the excessive rise in employment, but also on account of the rise in average earnings and the big rise in the income of the peasantry (9%). Real wages of workers and employees rose by between 2% and 2.5% and their real income by between 5% and 5.5% as a result of the increase in profit-sharing over 1967. None the less, complaints were voiced about the sharing of profits with workers feeling that disproportionate amounts had gone to the already better paid categories of employees. The lifting in 1969 of the 4% limit on wage increases and the new system of distribution of the profit-sharing fund may foster the willingness of unskilled workers to accept the reform. Furthermore, it appears that the proportion of persons dependent on the working population has recently decreased. This is probably an exceptional situation, explained by the fact that children born early in the fifties, when abortion was temporarily prohibited, are now entering the labour market.

49. In view of the price stability and the 5% increase in social benefits, the Government's claim that the standard of living has risen is doubtless true. However, the goods offered for sale were not always of a type and quality in demand. This is illustrated to some extent by the rise in retail stocks. Personal savings also increased by 4.4 milliard forints (17%) and by a further 7 milliard in 1969. This indicates considerable shortage in the supply of certain consumer goods. These deposits enabled a large number of private loans (1.7 milliard forints) to be made, particularly for the building of living accommodation. The Government's new directives for private trade show its concern to provide consumers with more goods and services (the price of the latter rose by 4% in 1968). Licences can now be issued under 70 different trades, in order to improve the supply of goods and to make up for the inadequate network of State and co-operative shops.

50. The housing situation improved somewhat in 1968 with the construction of 67,000 apartments, or 8% more than in 1967. The housing shortage is still a serious problem, however, and in order to overcome the dearth of building materials a start has been made on establishing factories turning out prefabricated homes.

51. While the income of the population increased by over 9% in 1969, this is mainly because of the rise in employment and the big share-out of profits made at the beginning of the year. 1969 has not been a particularly good year for the consumer. The supply of meat has been poor and the price of vegetables high, factors which hit the less privileged categories of the population hardest. Various enterprises have often found it easier to increase profits by raising prices and exhausting their stocks, thus creating a scarcity of certain items. Imports, which accounted for about 11% of retail sales in 1968, have provided little stimulus to competition because of their high prices, and they have sometimes even led national producers to raise the prices of their products. Wage rises in 1969 were not supposed to exceed 2%, but they have outstripped this figure and it is expected that the Government will take measures to accentuate the interdependence between wage increases and improved productivity. The rise in prices remained within the 1.5-2% limit authorised in the Plan.

E. Public Finance

52. The total budgetary expenditure rose from 138.7 milliard forints in 1968 (30% over the previous year) to 155.9 milliard in 1969, i.e. a rise of 12.4%. This rising trend is explained by the implementation of the economic reforms and the resultant price changes. Forecasts of receipts (154.2 milliard forints) are based on increased tax returns resulting from the expected improvement in productivity. Almost half the total expenditure is to be accounted for by investments (36 milliard forints) and subsidies (40.82 milliard forints). Contrary to the practice in Communist countries, in 1968 and again in 1969 a deficit was recorded; as it only amounted in 1968 to 1,400 million forints, or 1% of the total receipts, it was easily absorbed out of the previous year's surplus. The figure should be about the same (1.1%) in 1969. In 1970, budget expenditure should amount to 170 milliard forints (an increase of 9%) of which 38 milliard will be accounted for by investments. The deficit should remain at the same level (1,700 million forints).

53. The interpretation of the Hungarian defence budget gives rise to a number of difficulties. Between 1963 and 1966, this budget gradually went down from 6.6 to 5.2 milliard forints only to rise again appreciably during the last three years. It is probable that the financial repercussions of the stationing of Soviet troops in Hungary has something to do with this trend, but no confirmation is available. Again, it is budgetary practice in Communist countries for official figures to omit

certain expenditures which, in the West, are normally considered to be connected with defence. Thus, variations affecting the official budget do not necessarily reflect a corresponding variation in actual military expenditure. The defence budget rose by 18.4% in 1968 to a figure of 6,439 million forints and by 24.6% in 1969 to a figure of 8,029 million forints. However, this figure does not reflect a big increase in the military effort but rather accounting changes. It is probable that because the economic reforms have increased the degree of self-financing of investments, the Ministry of Defence is now obliged to make public the subsidies paid to enterprises engaged on defence projects whereas these subsidies were formerly included in the ordinary national budget. The rise in prices that followed the reforms has also made itself felt in the military budget. Hungary's real defence effort, taking into account expenditure camouflaged in other budgetary chapters, represented 4-4.5% of the GNP at factor cost according to the estimate of experts who met at NATO in 1968. There seems to be no notable change in this respect for 1969.

F. The 1970 Plan

54. The two main tasks to be faced in the final year of the current five-year Plan are the promotion of efficiency and the further improvement of the general balance of the economy. To these ends national income is expected to grow by about 5-6%; industrial production will increase by some 6%, but some sectors (engineering, chemicals and electricity) will expand faster than average whereas production in mining, metallurgy and light industry will grow more slowly. Despite considerable development, the building materials industry will not be able, even in 1970, to meet the demand and larger imports will be necessary. The labour force in industry will be increased by 2-2½% and productivity by 3-4%. The value of investments will grow by 6-7% in 1970 and the share of the productive sectors will be somewhat reduced to the benefit of the non-productive sectors, including housing. Agricultural output will rise by about 1%; crop production will probably not exceed the 1969 results, but livestock will progress considerably. With respect to living standards, an increase in real wages of 2.5-3% and a stabilisation of consumer prices are expected. For this purpose, the proportion of products in the free price category will remain unchanged; however, the Plan assumes a 1-1½% rise in this sphere.

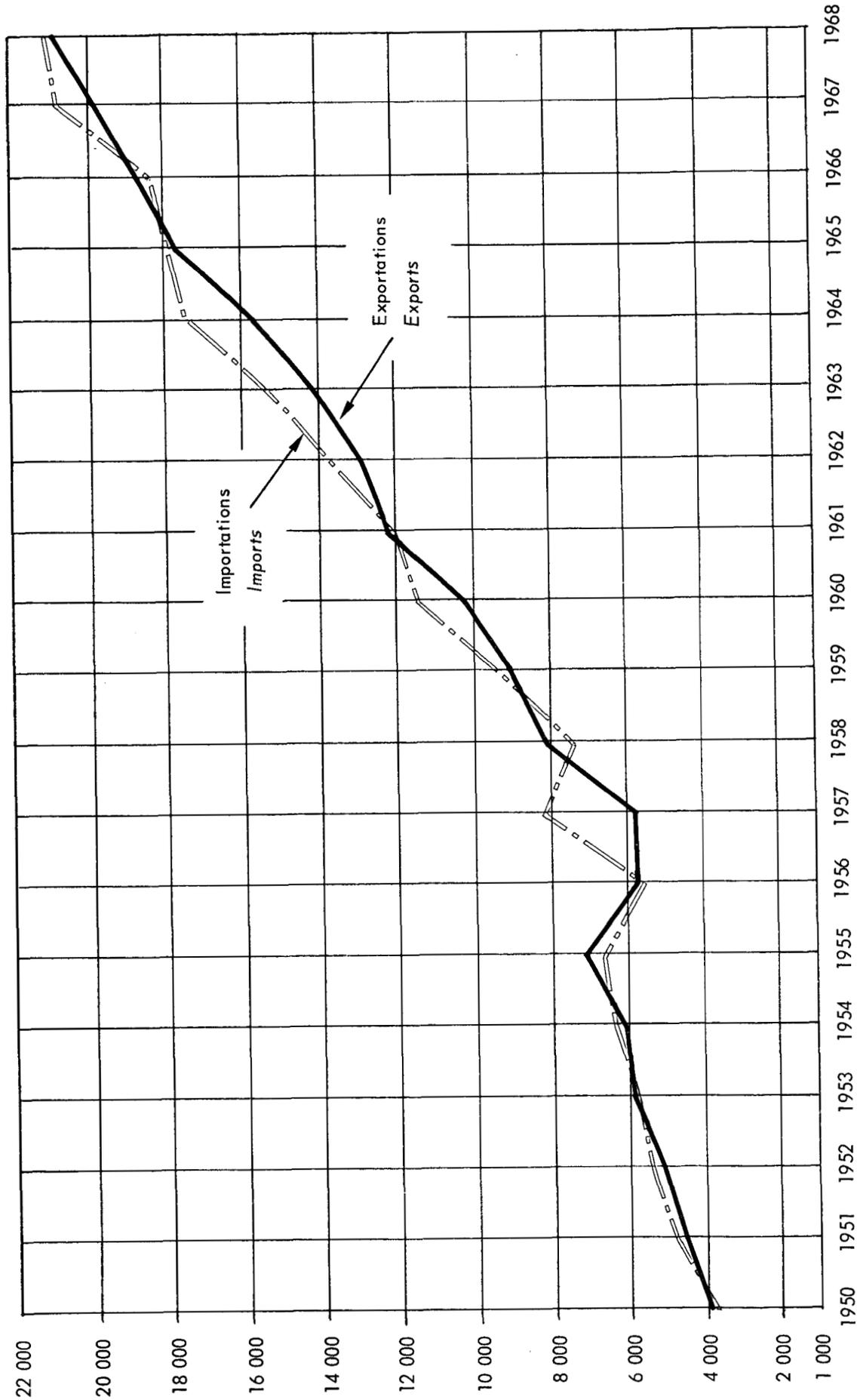
III. ECONOMIC RELATIONS WITH THE OUTSIDE WORLD

A. Foreign trade

55. Foreign trade is vital for the economic progress of a small country like Hungary with limited natural resources and a small home market. Exports account for some 9.9% and imports 10.3% of the Net Material Product. Exchanges with Hungary's trading partners have grown much faster than the GNP in recent years (an annual average of 8.5% between 1960 and 1968) and exports have outstripped imports. Under the third five-year Plan, foreign trade should develop at an average yearly rate

GRAPHIQUE III - CHART III
DEVELOPPEMENT DU COMMERCE EXTERIEUR
1950 - 1968
DEVELOPMENT OF FOREIGN TRADE
1950 - 1968

En millions de
forints-devises
Million foreign
exchange forints



of 7.9%. The results of the first three years show wide variations with the growth rate going from 4.3% in 1966 to 10% in 1967 and back to 3.3% in 1968. The share of the Communist countries has reached 70%, with 37% for the Soviet Union alone. Exporting to the non-Communist countries has not been so successful, since the share of the Western industrialised countries fell in 1968 to its 1960 level (24.2%) and turnover with the developing countries also went down in absolute terms and as a percentage of the overall figure (5.6%).

56. Except for a small surplus in 1961 and a slightly larger one in 1966, in recent years Hungary has had an adverse trade balance with the Western industrial countries. This persistent imbalance which was mainly the fault of the poor export showing, prompted the authorities to reorganize their foreign trade as part of the economic reform. In 1969 there was for the first time a considerable export surplus with both the capitalist and the socialist countries. This favourable trend in the foreign trade balance seems to be one of 1969's special successes and therefore one of the achievements of the economic reform.

B. The Geographical breakdown

57. The Soviet Union, with 37% of the total trade, is Hungary's foremost trading partner. About 40% of the USSR's exports to Hungary are made up of raw materials and semi-finished products. Almost all Hungary's imports of crude and refined oil, iron ore and pig iron, most of her imports of phosphate fertiliser, timber and electric power and almost half of her purchases of coke, cotton and rolled steel come from the Soviet Union. The latter also supplies Hungary with machinery and equipment, especially that required for the chemical, oil and rubber industries. Industrial plant and equipment, especially telecommunications equipment and pharmaceuticals take the lion's share of national exports to the USSR. This country also provides a steady and virtually unlimited outlet for Hungarian industrial consumer goods and agricultural products.

58. Until 1966, Hungary always had a debit balance in its relations with the Soviet Union (135.6 million dollars for the 1960-66 period). This is probably explained by drawings on Soviet credits granted for the fulfilment of the second five-year Plan. This trend was reversed in 1966, and over the three following years Hungary has had a cumulative surplus of 76 million dollars which may be attributable to partial reimbursement of various Soviet credits falling due for repayment in 1970. By that time, Hungarian-Soviet trade should have increased 50%, i.e. at an average annual rate of 8.4%. The annual increase (7.1%) for 1966-68, however, would so far seem to fall below the targets. Negotiations covering trade during the period 1971-75 have already started, and mutual deliveries of machinery are receiving special attention.

59. The other Communist countries of Eastern Europe accounted for just over 31% of Hungary's foreign trade in 1968. The volume of trade rose by 36.8% between 1963 and 1968, making an average of 6.5% per annum, with exports rising more rapidly than imports. The most significant progress was with the Soviet Zone of Germany which has taken Czechoslovakia's place as Hungary's second trading partner. Hungary's main exports are products of its engineering industries which, like chemicals, also rank high among imports from the Soviet Zone. Expansion of trade between the two countries is the fruit of agreements on industrial co-operation and specialisation which should also provide the basis for more trade with Czechoslovakia. Poland is Hungary's fourth trading partner. Recent changes in the pattern of trade between the two countries, with increased emphasis on machinery and equipment, are a reflection of their growing industrialisation.

60. Trade between Hungary and its NATO trading partners rose by 38.3% between 1963-68, making a yearly average of 6.7%, with exports rising a little faster than imports. Germany heads the list of these partners followed by Italy, the United Kingdom and France. Hungary's debit balance with NATO countries as a whole fell from \$83 million in 1964 to \$31 million in 1968.

61. Over the past few years, Hungary has sought to replace the one-year bilateral agreements with the Western countries by long-term agreements (four or five years) within which annual protocols are negotiated. In November 1966, Hungary was granted observer status by GATT and has now applied for full membership. It has also put out a number of feelers with a view to the establishment of relations with the Common Market.

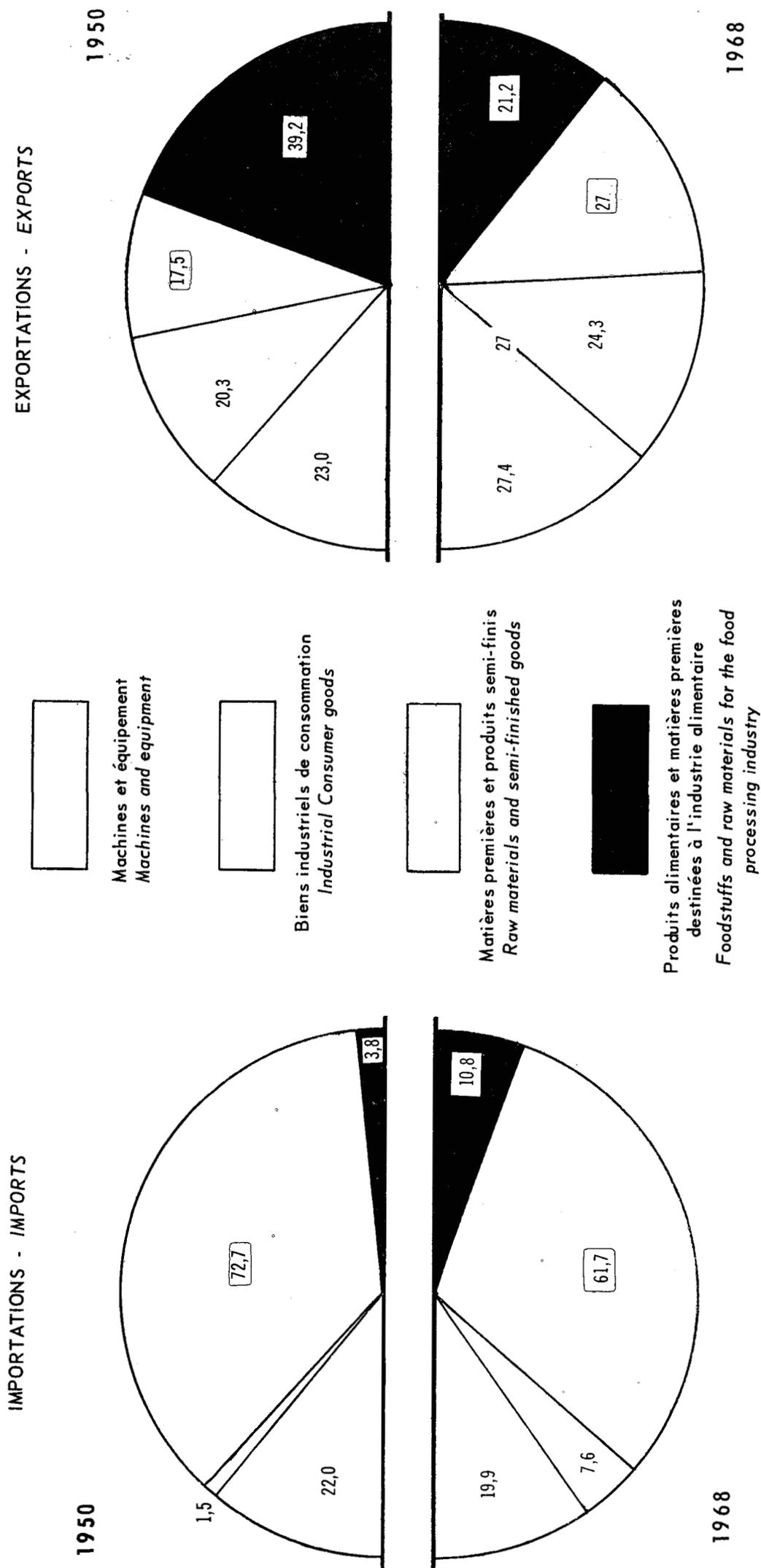
C. Commodity composition of foreign trade

62. In the field of exports the leading place is now held by machinery and equipment which represented 27.4% of Hungarian exports in 1968 as compared with 9% before the War they are sent almost exclusively to the other Communist countries. Next are fuels, raw materials and semi-finished products combined which accounted for 27% of the overall figure, half of this amount going to the COMECON countries. The remainder is made up of industrial consumer goods (24.3%) and foodstuffs (the percentage of which has fallen from 57% before 1945 to 21.2% of the overall figure). In fact, sales of agricultural produce outside the Communist market provide Hungary with one of its main sources of convertible currency. Another such source is tourism. The number of foreign visitors rose from 244,351 in 1960 to 2,419,924 in 1967, most of them from the Socialist countries, particularly Czechoslovakia and Yugoslavia.

GRAPHIQUE IV - CHART IV

NATO UNCLASSIFIED

STRUCTURE DU COMMERCE EXTERIEUR PAR GROUPE S DE PRODUITS EN %
 PATTERN OF FOREIGN TRADE BY COMMODITY GROUPS IN %



NATO UNCLASSIFIED

63. As for imports, fuel, raw materials and semi-finished goods account for half of Hungary's foreign purchases with the USSR the main supplier. In percentage terms, imports of plant and machinery have risen steadily. They now represent almost a quarter of the overall volume of imports, and are supplied in most cases by the other Communist countries. The balance is made up of foodstuffs (11.5%) and consumer goods, over half of which come from the West.

D. Impact of the Reforms on Foreign Trade

64. Since two years have elapsed since the economic reforms came into effect, it is still too soon to assess their overall impact. Hungary's trade balance improved markedly in 1968, with a deficit of \$13.4 million, as compared with the 1967 figure of \$74 million. However, this was mainly due to a sharp rise in exports to the other Communist countries, and especially the Soviet Union, where a surplus was achieved. At the same time, overall imports were kept down to just over the 1967 level - i.e. well below the planned figure. Imports from Hungary's non-Communist trading partners went down by 4% (5% for the industrialised countries), as compared with an increase of 7.8% in 1967. This seems to indicate that the new measures designed to check the hard currency outflow have proved their worth; they may even have been overdone in some cases. Exports to the West went down by 4.4% (2.5% for the industrialised countries), agricultural and food products being especially affected. These products now represent 34% of overall exports to the West.

65. In view of these results, further measures to promote exports have been announced: tax rebates and foreign currency loan facilities for investments designed to increase exports. The full impact of these measures will not be felt for some time. However, judging by the 1969 figures, the position has clearly improved: a 16% increase in exports has been achieved together with a 7% increase in imports. Particularly striking is the 32% rise in exports to Western countries as well as the favourable trade balance. Higher prices in Western markets and a more liberal attitude, on the part of the Common Market, towards Hungary's main agricultural exports played an important rôle (it should be noted that exports to the West had fallen sharply at the beginning of 1968 as a result of the difficulties in selling agricultural products, and especially cattle, to the Common Market). Another factor was the introduction of incentives designed to increase exports.

66. In 1970, imports should increase by 6.7% and exports by 7.5%, and the foreign trade balance would again be positive. The planned rate of growth of imports from Western countries (9.8%) is higher and of exports to these (5.3%) is lower than the global figures of trade with the Communist world. Special emphasis will be laid on trade with the developing countries.

From the available figures for 1969, it appears that, following the reorganization of foreign trade in the context of the economic reforms, firms have been prompted to step up their exports to strong currency countries and the new arrangements seem to be operating satisfactorily. In this connection, it is noteworthy that, in 1968, approximately 35% of export transactions and 11% of import transactions are reported to have been concluded directly between the producer and the consumer.

E. Co-operation with the COMECON countries

67. Although Hungary is trying to increase its trade with the West, this is unlikely to have an adverse effect on its dealings with the Communist countries, which already account for 70% of Hungary's overall trade. Thus, since the country currently relies on Soviet raw materials, since Hungarian commodities are still largely uncompetitive on world markets and are therefore dependent on Communist markets and in view of the long-term planning system governing COMECON trade, the present trend of Hungary's foreign trade will probably continue.

68. During the COMECON meetings held in Berlin and Moscow in January and April 1969 respectively, Hungarian economists put the case for closer co-operation in this body whose present structures, in their view, were outdated, as a result of national economic reforms in each of the member countries. In addition to the usual themes of integration and specialisation, the Hungarians are advocating trade liberalisation and co-operation at enterprise level within the COMECON, coupled with the introduction of a degree of convertibility. In recent months there has been widespread discussion of reforms as regards COMECON trade and currency affairs. At a conference in January and at subsequent meetings inside COMECON, specific plans appear to have been put forward along, however, with other proposals to make COMECON more effective. Hitherto in practice the "transferable" rouble has been an accounting unit and there has been no inducement to hold it as goods available for export had already been allocated. It has now been suggested that one should get away from strict bilateralism in trade and that the COMECON currencies should be made convertible. This would imply some devaluation of most currencies relative to the rouble. So far, no precise measures have been announced.

69. Hungary took a number of practical steps as early as 1967 in an effort to secure a greater liberalisation of its foreign trade and the development of frontier trade. On a Hungarian initiative, a conference of the Ministers of Internal Trade of all the COMECON member countries - the first of its kind was held for this purpose in February 1969.

70. The existing forms of co-operation between Hungary and the rest of COMECON (apart from Hungary's membership of COMECON's permanent agencies) comprise a wide range of joint production, investment and commercial agreements; these provide for the joint production of specific equipment, with or without the participation of non-Communist countries, joint manufacturing cycles (a notable example of which is the Soviet-Hungarian agreement on aluminium), joint investments, the establishment of joint enterprises, specialised production and financial co-operation(1).

F. Co-operation with the industrialised West

71. Hungary is convinced that productivity can be increased only by developing trade with the West, whose advanced technology is essential to her. However, in order to avoid amassing heavy debts in foreign currencies, it has concluded a number of technical and industrial co-operative agreements with firms in the leading Western industrialised countries. As early as 1965, the Ministry of Metallurgy and Engineering and the Ministry of Foreign Trade jointly set up a Foreign Trade Office for Technical Co-operation in order to promote co-operation in the production field between Hungarian factories - particularly those engaged on metallurgical and engineering work - and Western firms. In 1968, Hungary signed 28 agreements of this kind - i.e. almost double the number concluded in the previous four years. Arrangements of this kind are likely to develop still further in the immediate future.

72. Industrial co-operation agreements were designed primarily as an alternative to long-term credits. However, they also act as incentives and as yardsticks for the modernisation of Hungarian industry, which is one of the specific goals of the economic reform. Despite the country's long-standing traditions of craftsmanship and the high quality of its products, especially in the electrical engineering and precision industries, its research and development resources are limited. It has therefore been decided to give up over-ambitious schemes and to make use of Western designs and licences.

73. Of all the Communist countries, Hungary is the most suited to this form of industrial co-operation, particularly since the Hungarian Communist Party is clearly prepared to take a fairly flexible attitude in its economic relations with capitalist countries. Hungary has been the most active of all the COMECON countries in this respect and has concluded a wide range of agreements in the following categories: division of labour; assembly of Western components in Hungary; processing of raw materials; joint delivery of complete plant to a third country; repayment in goods; repayments by products of equipment, technical agreements and exchanges, joint companies and licences(2).

(1) For a more detailed analysis, see Annex II
(2) For a more detailed analysis, see Annex III

G. Western credits

74. Despite the new forms of industrial and technical co-operation it has developed with the West, Hungary is still obliged to rely on Western credits to finance imports of capital goods. Since no information is available regarding actual drawings on these credits, it is only possible to indicate the size of Hungary's medium and long-term debts to the NATO countries. At the end of 1968, these totalled \$119.3 million(1). This is less than the amount owed by any of the other COMECON countries (except Mongolia); \$50 million - i.e. 40% of this total - was made up of credits granted for five years or more, this being a smaller proportion than for Rumania, Poland or Czechoslovakia. Even although these figures do not include credits granted by non-NATO countries such as Austria, Sweden, Switzerland and Japan, they probably exaggerate the extent of Hungary's indebtedness, as some of these credits have not been drawn upon.

75. Hungary was first of the East European countries to negotiate Euro-dollar loans with the West. In 1968, it secured 3-4 year Euro-dollar facilities to the tune of \$10 million and subsequently \$15 million from banking consortia headed by Lazard and Rothschild respectively. This arrangement is more flexible and therefore seems to be more advantageous than credits tied to the purchase of specific capital goods. More recently Hungary borrowed \$15 million on the London market from a consortium of banks headed by Bolsa to finance the expansion of the aluminium industry. This is the first Western loan for the industrial development of an East European country which has been assigned to a specific industry.

(1) Figure quoted in AC/89-WP/280

THE ECONOMIC REFORMS(1)

1. The guidelines of the New Economic Mechanism (NEM) were published in May 1966, followed by decrees for their implementation, which began in January 1968. This Annex examines the main aspects of the NEM, including the foreign trade sector. The reforms in general aim to create a more competitive economy and a more effective state planning system, by introducing a greater element of "self-regulation", i.e. by relying more on market forces and monetary incentive and by delegating ordinary operational management decisions. This at least is the theory, but certainly in the early stages of implementation the state retains very considerable powers.

Planning

2. The principle that decisions should be made at the most appropriate level has freed central planners from the need to plan all aspects of enterprise activity, while leaving with them the central economic plans as the main device for the execution of economic policy. The content of plans now depends on their function. Long-term plans (10-15 years) outline basic objectives of policy relating to international relations, living conditions, and economic development; the medium-term plans (5 years) contain guidelines for growth and indicate mandatory tasks (e.g. in investment) for the five year period, while the short-term plan (one year) has a more flexible nature. Apart from defining obligatory developments for its particular year of the Five Year Plan, it provides opportunities for modifying elements of the longer plans and initiating economic policy changes. Enterprises now make their own plans independently, and it is a function of the respective Ministry to ensure that the plans of enterprises within its jurisdiction are within the framework of state economic policy.

Enterprises

3. Much more responsibility now rests with the enterprise director, although the Ministry or other founding body retains the power to intervene if necessary. With the abolition of central allocations for most materials and products and much greater freedom in wages, investment and production policy, the enterprise director is now free to use the assets of the enterprise as he thinks best - long-run profit has now become the main success indicator. Workers' councils have no place in the Hungarian reform programme,

(1) Part of a study on the Hungarian economy submitted by the United Kingdom Delegation (AC/89-WP/280, Annex I)

mainly because it is felt that these would restrict the enterprise director's authority, though trade unions do have rights regarding working conditions, and the management is obliged to make a legally binding contract with its employees. Through its taxation policy, the state tries to ensure that the enterprise operates efficiently: particularly important has been the extension to all enterprises of the 5% tax on fixed and working capital used for productive purposes. This is a tax paid out of profits intended to encourage the economical use of labour and capital, and to discourage the production of unsaleable goods. Of the remaining profit, an average of 60% is paid to the state at present in the form of a progressive profit tax, and the remainder used by the enterprise to establish profit-sharing, development, and reserve funds. The profit-sharing fund is used to supplement personal incomes; although the state determines basic wages, the enterprise can use the profit-sharing fund either to increase wages during the year or else to provide differential share-outs at the end of the year. The shares paid can be up to 80% of annual salary for top management, 50% for technical and administrative personnel, and 15% for workers. In addition, premiums may be paid to top managers, which may reach 30% of their basic wage, but, though this group stands to gain much more from profit-sharing, it also stands to lose much more. If the future performance of the enterprise is in doubt, 25% of the managers' share can be withheld and distributed in the other two categories or kept as a reserve. Furthermore, in the event of an enterprise deficit not recoverable from reserves, only 75% of a top manager's salary is guaranteed and 85% of that of administrators and technicians, whereas workers wages are guaranteed to the full(1). The profit-sharing fund is taxed

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- (1) New provisions have been adopted since the United Kingdom note was drafted. As the creation of three categories of enterprise had created dissatisfaction and therefore impeded any increase of incentive, new regulations, approved last December but retroactively in force as from 1st January, 1969, provide for the abolition of categories and grant to the enterprise managers and the trade unions a much freer hand in the determination of how the profit-sharing fund is to be distributed. Only two factors have to be taken into account: the basic wage and the length of service with the enterprise. A uniform basis for calculation for all the degrees of the hierarchy will be determined by collective agreements, although there can be financial differentiation between factory units and workshops according to their contribution to the enterprise achievements and provided that the amount payable does not exceed 25% of the annual wage fund. For people in top positions and those members of the staff who, because of their duties or sphere of activity, have a determining influence on the enterprise results, a system of profit premiums is introduced, depending on profits and on the development of the personal income of all workers in the enterprise. The rule remains that the basic salaries of these people can be reduced in the case of loss-making management. This category will be laid down in the collective contract and the reduction will in future be 15% uniformly.

progressively at rates from 2-70% to prevent too wide differentiation between enterprises. The development fund (which also includes a percentage of amortisation) is used primarily to finance an enterprise's own investment, to provide circulating capital, finance improvements in labour conditions, pay communal taxes to Councils, and repay bank and state loans.

4. The division of retained profits between development and profit-sharing funds depends on the ratio of wages to fixed assets, and in 1968 wages were multiplied by a wage factor of 2 to 7 (2 for trade enterprises, 7 for state farms) to further even out differences between enterprises. A reserve fund must be formed, in order to cover unforeseen risks, by deducting 10% of the profit-sharing and development funds. In 1968, 60% of the enterprise development fund formed from investment grants to the enterprises in 1967 was to be used to establish the basis of this reserve fund. Turnover taxes are maintained to manipulate prices, but their importance will decrease as prices reflect costs more accurately. Finally, by means of production taxes, the state can tax away profits considered to have been made by monopolistic practices.

Investment and Credit

5. With the government's dependence on economic measures to regulate the economy, investment and credit policies assume more important rôles in the NEM. Though provision is made for the extension of enterprise financing of investments and increased use of bank credit, the government still determines the aggregate volume of investment, and its distribution among the various sectors of the economy. Central plans no longer contain any plan indices or limits for enterprise investment, but, through control of amortisation funds, profits and credit policy, the state ensures that central objectives are observed by enterprises. In addition, certain categories of investment can be initiated only by the state, the most important of which are:

- (a) Individual large scale investments, which include:
 - (i) expansion of an enterprise which results in a 25-30% increase in the output of the branch or product group concerned;
 - (ii) any investment dependent mainly on imports;
 - (iii) any investment which the government cares to classify as large scale.
- (b) Non-productive investments in the power and transport industries etc.
- (c) Non-productive investments of Councils and official Bodies.

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Investments in Category (a) are plan instructions and must be given priority over all other investments. Enterprises can initiate the replacement of obsolete fixed assets, modernisation programmes, expansion of production and non-productive welfare investments (and any investment which does not violate conditions (i), (ii) and (iii)). An important change under the NEM is that state loans must be repaid (at least in part) by enterprises, and this ought to stimulate a more rational use of investment funds.

6. As well as defining the scope of enterprise investment, the state can further control investment through its credit policy. In general, credits are granted according to the credit-worthiness of enterprises. The basic interest rate on medium-term (3-4 year) credits has been fixed at 8%, while that on long-term (6 year) credits is 5% initially and 7% when the project becomes productive. Several exceptions to these general rules are provided for; thus repayment periods of up to 8 years are permitted in the case of investments improving the 'regional distribution of industry' and of up to 10 years for foreign exchange earning investments. Long-term credits will not be granted in coal-mining, petroleum and natural gas production, electric and other public utilities. In agriculture, the interest rate on medium-term (4 year) credits is 6-8%, and long-term credit repayment periods can be as long as 20 years; no minimum rate of return has been stipulated. Short-term credits in general are made on the basis of contracts or credit limits, and are granted mainly for improving the supply of goods to the market and for providing temporary circulating capital, the interest rate being fixed at 8%. In general, an enterprise's security for credits is its balance sheet, and this provides an extra check on the performance of enterprises, for, if the bank is dissatisfied with an enterprise's performance, it can withdraw credit facilities, keeping the founding body informed.

Prices

7. Four categories of prices have been established in the new system: officially fixed, maximum prices, prices allowed to fluctuate within limits set by the state, and free prices (non-official). The first two categories include 70% of domestic raw material and semi-finished product prices; 60% of agricultural prices, and 50% of consumer goods prices. In certain instances modifications of non-official prices planned must be reported to the appropriate price authority in advance, and the National Material and Price Bureau may suspend price rises for three months. To restrict monopolistic pricing policies, agreements dividing markets have been made illegal and profiteering has been made a criminal offence.

Costs of production, value judgements of the market and state preferences are taken into consideration when fixing prices, and it is claimed that state regulation of fixed prices will be flexible. In spite of the increased influence of market forces on prices, subsidies are still widespread, and, in addition, 50% of consumer goods have fixed or maximum prices in order to prevent any deterioration in the standard of living. Although 23% of consumer goods have free prices, this is not greatly different from the position before the NEM. Another important aspect of the price reform is the raising of agricultural procurement prices to ensure the financial independence of co-operatives and to bring agricultural and industrial price levels more into line.

8. So long as the state retains such extensive control over relative prices, and social considerations play such an important rôle, progress towards a more rational system will be very slow, and the Hungarians themselves expect that it will take 10-15 years to evolve a pricing system which reflects supply and demand conditions adequately. This emphasises the long-term nature of the NEM, since the price reforms are crucial to its ultimate success.

Agriculture

9. The agricultural reforms, like those in industry, are based on the principles of increased self-management and financial independence, together with state control through economic measures. The reforms began in the latter half of 1965, with a reduction in the number of obligatory requirements imposed on state farms and the substitution of a contract system for central directives in co-operative farming. The only compulsory target remaining is for the area sown with bread grains. In 1968 central control over sales was reduced, and co-operatives can now sell most products either direct to consumers (e.g. state enterprises, hospitals, restaurants) or on the market, as well as make contracts with state procurement bodies. In addition, some co-operatives have been granted independent export rights.

10. In 1966 it was accepted that existing prices for agricultural products were too low and, as part of the general price reform, aggregate prices were raised by 9% in 1966 and by a further 8% in January 1968, when tax concessions to help the weaker co-operatives were also introduced. In January 1966 state farm assets were revalued and revised depreciation charges were introduced. In December there was a revaluation of co-operative farms assets, and a substantial part of their debts were cancelled; 60% on average, and up to 85% for weak co-operatives. Amortisation funds and wage funds were established in 1966. This, together with the new

development fund, should permit a greater volume of self-financed investment to take place. As of 1st January, 1968, wages and amortisation are calculated as costs, and, together with the establishment of profit-sharing funds, this means that most co-operatives are now able to guarantee up to 80% of the average monthly wage.

11. To encourage profitability and to help the employment situation, a decree in 1967 extended the scope of co-operative farms ancillary activities to include machine maintenance and repair, the production of building materials, packaging, and transport. Ancillary activities were previously limited to processing agricultural products, and were performed by about 30% of co-operative farms only. To prevent too much decentralisation of decision taking, and to co-ordinate the activities of co-operatives, Regional Associations of Co-operatives have been set up, and it is expected that these associations will also improve agriculture's bargaining position vis-à-vis industry. As well as these purely economic reforms, there have been since 1966 several social reforms to improve living conditions and to reduce the labour exodus. These have included improved pension conditions and family allowances.

12. In 1968 the state introduced a new co-operative law to regulate the rights and duties of co-operative members, and a new land law to rationalise the land ownership situation. The co-operative law is based on the principle that the member is both an owner and an employee of the co-operative and therefore has both rights and duties. Under the new law, only full membership is possible and assistant members who did not participate in collective work had until March 1968 to decide whether or not they wished to become full members. The co-operative Assembly elected by the members manages the co-operative, and is obliged to provide adequate work opportunities. Membership and its associated benefits are dependent, however, on a minimum amount of collective work being done (150 days for men and 100 days for women). An important change under the new law is that all members are entitled to a household plot, whereas previously only one plot for each family was allocated. In addition, the size of the household plot is now related to the amount of collective work done. The rights of the members are determined by the Assembly, which also has the authority to expel members who do not fulfil the minimum collective obligations, and to accept or reject prospective members. It is hoped that these measures will encourage people to stay in agriculture and, at the same time, provide incentives to improve the quality of collective work.

13. Before the introduction of the new land law, the land farmed by the co-operatives was owned either by the members (58%), the state (22%), or by non-agricultural workers or institutions (20%). As a result of persons outside of agriculture inheriting members' land, about 70,000 hectares a year is thought to have passed into non-agricultural ownership. The right of the co-operative to use these lands remained, but the payment of rent to outside owners was a financial burden. The land law is an attempt to rationalise this situation by bringing land into collective ownership. State lands are to become the property of the co-operative in return for a nominal amount of compensation. Non-agricultural owners had up to 1st January, 1969 to decide whether or not they wish to become members. If they did not or if they were rejected by the co-operative Assembly, they are entitled to retain 0.57 hectares of land, but any amount in excess of this becomes the property of the co-operative in return for compensation. Land belonging to members remains theirs unless they voluntarily decide to sell it to the co-operative. To prevent land passing out of the co-operative, a member leaving it can only retain 0.57 hectares, and outsiders inheriting land may keep it only if they are accepted as members within three months of the date of inheritance. It has been stressed that co-operatives will have to pay compensation from their own funds for any land acquired, and this ought to moderate attempts to obtain ownership of members' lands.

Reorganization of Foreign Trade under NEM.

14. The declared aim of the organizational changes is to promote the general effectiveness of foreign trade operations, with special emphasis on exports, basically by removing detailed central control from the Ministry and allowing economic criteria, such as market forces, prices and credits, to play a part in decisions affecting foreign trade activity. In the past, the functions of manufacturing and selling had been kept quite separate, with the foreign trade corporations - acting as the buying and selling agents of the Foreign Trade Ministry - divorced from the technical problems of production and costs, whilst the producers themselves were out of touch with the requirements of the market.

15. Under the new system, quantitative targets are abolished and a system of incentives replaces the detailed and obligatory export targets previously laid down for each enterprise. The choice of market is now left to the producer, who can sell either at home or abroad, according to whichever market is the most "profitable", without reference to the foreign trade corporations. Managements are thus free to decide where they want to concentrate their export effort.

This should have the effect of making the producers responsible for the financial success or otherwise of their exporting activity. Government subsidies will continue to be paid for a short period (subject to a certain export level being achieved), in order to assist some of the less competitive enterprises to adjust to the new conditions, but this is regarded as a purely temporary expedient in the transitional period. Some protection to domestic industry is also provided by a three-tier customs tariff, with a preferential rate for developing countries, an MFN rate to cover the bloc and most Western countries, and a full rate for Portugal, South Africa and the United States.

16. The right of independent export (i.e. without the intermediary of the foreign trade corporations) was granted initially to a number of large producer enterprises enjoying a monopoly of their particular product, and already exporting directly a fair portion of their output. One of the industries most concerned is engineering, and among the major enterprises invested with the right of direct export are: GANZ MAVAG Locomotive and Railway Carriage Manufacturers, CSEPEL Iron and Steel Works and the Hungarian Optical Works (MOM). Some commercial enterprises, notably those handling sales of capital equipment, may also be allowed to deal directly with firms abroad. To date, some 80 or more manufacturing and commercial enterprises are involved, although the central authorities retain the right to withdraw any concessions on direct foreign trading rights if necessary. The majority of enterprises, however, will continue to use the state foreign trade corporations as buying and selling agents, either on a commission basis or with both sides sharing profits and risks. It is hoped in this way to provide the trading associations with an incentive to maximise export profits and thus boost trade generally.

17. Another incentive to exporters is provided by a system of foreign exchange multipliers, applicable to Western currencies and the rouble respectively. These multiple exchange rates are well above the official exchange rate for the forint and are weighted in favour of the convertible currency area. Through the use of such multipliers (devised to make enterprises feel the full impact of their foreign trade operations) it is hoped to encourage exporters to maximise their returns. Conversely, the application of the new differential rates to imports will make these dearer and should cause importers to be highly selective in placing orders with foreign firms. Just as producer enterprises are free to select outlets for their products, so user enterprises are able to diversify their sources of supply by buying on the domestic market or importing. If the latter, then the enterprise itself has to finance the purchases, either from foreign exchange earnings or through bank loans. To control

any excessive imports and forestall a rush on credit facilities (chiefly for machinery and equipment imports) in the initial period of reorganization, import licensing is being used extensively. Four main types of licensing arrangements have been drawn up. They include a liberalised list of raw materials and semi-manufactured goods, for which licences will be issued freely, and a global quota list, to include machinery and equipment. Import licences are issued by the Ministry of Foreign Trade or by the foreign trade corporations, and enterprises earning hard currency almost certainly have little difficulty in obtaining such permits. According to Hungarian officials, this partial system of quotas is meant to act as a guide in the formation of commercial policy, and not as a means of restricting the volume of trade.

18. After a year of operation, adjustments to the rates of levy for various goods were made, and modified customs tariffs introduced for 1969. Some rates are now higher and others lower, but it was stressed that the new rates would not lead to rises in the home market price of imported goods or of goods incorporating imported materials. A revised list of commodity groups which carry full or partial exemption from duty has been drawn up, and only 150 commodity groups are now duty-free, compared with 540 in 1968. These modifications in the customs tariffs are no doubt intended to reinforce the policy of ensuring careful import selection on the part of enterprises. At the same time, since increased tariffs on imported materials must not be accompanied by price increases of the finished products (except possibly in the case of some luxury articles), this will have the effect of reducing the profit margins of the industrial enterprises and the foreign trade corporations.

19. Another economic lever designed to check excessive demand for Western machinery - necessary in view of Hungary's balance of payments difficulties - is the import-deposit scheme introduced last year, whereby a two-year deposit of 150% of the value of the import was required prior to importing. The reduction of the deposit to 100% earlier this year suggests that the scheme has been effective in controlling the rise in such imports from the West: but it could be interpreted as a concession to some importers who have reportedly been finding difficulty in raising funds to meet the deposit payments.

20. Foreign exchange will continue to be strictly controlled by the National Bank, and all foreign exchange earnings must be handed into the Bank, which then credits the enterprise with the requisite amount in forints. Allocation of foreign currency for imports is decided by the Foreign Trade and Investment Banks, and authorised through the National Bank, with preference given to imports of machinery and equipment, the investment cost of which can be recovered within a relatively short period (say 2-3 years).

CO-OPERATION BETWEEN HUNGARY AND THE COMECON COUNTRIES(1)

Some examples are given here of the main types of co-operation agreements between Hungary and the COMECON countries, as mentioned in the text above.

1. Joint Production

This type of agreement covers one or more bloc countries, and involves supply of components for items manufactured by another country. Hungary has a number of such agreements, one of the most important being a 1968 agreement with the Soviet Union for co-operation in the car industry. Five major Hungarian companies will supply, on the basis of Soviet technical documentation, certain components for the Soviet VAZ passenger car to be manufactured under licence from FIAT at Tolyattigrad. In return, Hungary will receive 12,000-14,000 cars a year (out of an estimated annual production of 650,000-700,000 cars). This agreement is to cover the period 1969-1975.

2. Joint Production with East and West

This is a similar form of co-operation to 1 above, but involving also a non-Communist country. A recent example is the agreement concluded between TECHNOIMPEX, Hungary, INVEST of Czechoslovakia and the German firm of SUCKER for the building of slashing machines for the modernisation of the Czech textile industry. 50% of the components will come from Germany and 50% from Hungary (built according to Sucker's blue-prints), with final assembly in Czechoslovakia.

3. Joint Processing and Development

Under this type of agreement, raw materials or semi-processed goods are exchanged and further processed. The outstanding example is the Hungarian-Soviet aluminium agreement (see paragraph 28). Another agreement, with Poland, concluded in February 1969 and covering 1971-1975, provides for deliveries of Hungarian alum earth to Poland, to be processed and returned in the form of aluminium. The new agreement reflects the growing co-operation between

(1) Part of a study on the Hungarian economy submitted by the United Kingdom Delegation (AC/89-WP/280)

the two countries in the aluminium industry, which began in 1960. Another agreement, this time with Rumania, provides for Hungarian lead slag and agglomerates to be processed in Rumania, with payment in the form of lead blocks. Under a 1967 agreement, Rumanian steel ingots are sent to the Diosgyor Steel Works in Hungary, where they are milled into blocks and returned to Rumania as semi-manufactured goods.

4. Joint Investment

Under this form of co-operation, funds are earmarked for specific projects, and the credit country/countries repaid in the products of the plant concerned. This type of investment, as distinct from government loans, repayable in cash, was first introduced into CMEA in 1957, when the Soviet Zone and Czechoslovakia undertook to invest in Polish coal-mining. Hungary has received investment credit, mainly from the Soviet Union, for projects including the construction of steel rolling units at Dunjavaros, a nitrogen fertiliser plant at the Tiszavidek Chemical Works, for development of the Szazhalombatta oil refinery and the Light Metal Works at Szekesfehervar and for the building of a nuclear power station. Under a long-term agreement with Poland, the latter will supply Hungary with equipment for a sulphuric acid factory, as well as raw sulphur for processing, over a period of 15 years (1971-1985). Hungarian investment has been made in the Bulgarian and Rumanian chemical industries, and Hungary has joined with other East European countries in the exploitation of a Soviet phosphate mine at Kingisepp. Hungary is also reported to have extended a large credit to Yugoslavia for the supply of Hungarian power plant equipment and the construction of power plants in Yugoslavia, repayable by long-term deliveries of electricity.

5. Joint Enterprises

This represents another form of joint investment, but differs from the latter in that ownership of the company concerned is shared as well as the profits. The first instance of such co-operation was the setting-up in 1959 of the Hungarian-Polish HALDEK Corporation, registered as a joint-stock company in Poland, to process Polish coal slack into briquettes. This was followed in 1964 by two further joint enterprises, this time with Bulgaria.

AGROMASH, with its head office in Budapest and a branch office in Sofia, co-ordinates the development and manufacture in both countries of equipment for market gardening, vine and fruit growing. (Soviet participation in AGROMASH has been confirmed during 1969 by an agreement signed in Moscow.) It is also concerned with joint sales of such equipment to third countries. INTRANSMASH co-ordinates design and research work relating to mechanical handling equipment for use in factories. Since its inception, INTRANSMASH has prepared more than 800 designs for transport equipment; and more than 20 projects have been implemented in enterprises in both countries. As a result of its work, it is claimed that handling costs and time-scales in certain factories have been considerably reduced, whilst other CMEA countries are also benefiting from the specialist knowledge of the company.

6. Production Specialisation

Although production specialisation on a CMEA-wide basis has so far failed, inter-product specialisation between pairs of countries has been developed successfully in some fields. Thus, Hungary and Czechoslovakia have agreed on a division of labour in the production of certain medical instruments, to avoid duplication of output. Two firms in the Soviet Zone are expected to participate in this specialisation agreement. The Hungarian Optical Works, MOM, and Carl Zeiss, Jena, carry out joint research and specialisation in the manufacture of medical instruments, particularly photo x-ray cameras. Zeiss components are used in certain hospital equipment exported by Hungary to third countries. Other agreements provide for Hungary to take over from the Soviet Zone the production of certain agricultural machinery and calculating equipment. Specialisation between two motor vehicles works provides for the East German firm to specialise in the production of lorries up to 10 tons, and over 10 tons for the Hungarian works.

7. Financial Co-operation

This is a very recent form of co-operation for Hungary, and indeed for CMEA. It involves the setting-up of banking consortia to promote financing of joint projects and long-term economic and business co-operation, including deals in third markets. So

far, Yugoslavia has been the prime mover in this form of co-operation, and has set up banking consortia with Hungary and Czechoslovakia, whilst negotiations for a similar link with Poland have been started. Five Yugoslav banks and two Hungarian banks - the Foreign Trade Bank and the Investment Bank - are involved in the Yugoslav-Hungarian Consortium. So far, the Consortium has been asked to undertake financing of one major deal (totalling some \$7 millions), under which GANZ-MAVAG of Budapest and the Yugoslav firm of DJURO DJAKOVIC have agreed to produce jointly 65 diesel electric locomotives for Yugoslav railways. Whilst this form of co-operation is new for Hungary, it obviously has possibilities, both for further development of economic links with Yugoslavia, in the first instance, and with other countries.

CO-OPERATION AGREEMENTS BETWEEN HUNGARY AND THE WEST(1)

Some examples are given here of the main types of co-operation agreements between Hungary and the West, as mentioned in the text above.

I. DIVISION OF LABOUR

Sweden

Agreement with Mecman for pneumatic and hydraulic control elements to be manufactured and assembled by the Precision Fittings factory at Eger from technical documentation and know-how supplied by Mecman, so that there will be complete uniformity of specifications. There will be a substantial reciprocal flow of components between the two firms, and Mecman will stop producing one type of cylinder which will be made entirely in Hungary and supplied to Mecman in repayment.

Austria

- (a) Agreement between Alpine Montangesellschaft and other Austrian firms and Metalimpex on the exchange of rolled steel products, the Austrian firms making reinforcing steels as required on a commission basis.
- (b) Agreement between Steyr-Daimler-Puch and Hungarian enterprises for co-operation in the production of tractors, buses and trucks - with the Austrians making the engines and chassis and the Hungarians the superstructure.
- (c) A 10 year agreement between the Osterreichische Stickstoffwerke and the Budapest Chemical Works to supply each other with products which the other is not producing.

Switzerland

The Zschokke firm gives the Diosyyor Machine Factory complete production drawings and technical information for the production of bending presses and on methods for the cold working of sheet metal. There is joint production of high-capacity bending presses, with the Hungarians manufacturing the machine frames while the Swiss concern supplies the hydraulic parts and the electrical controls.

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- (1) Part of a study on the Hungarian economy submitted by the United Kingdom Delegation (AC/89-WP/280 and Annex II)

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France

As long ago as 1963, Alsthom and Neyrpic signed a 10 year agreement with Ganz-Mavag on co-operation in the production of turbines and generators for shallow river hydro schemes. It was expected that a large proportion would be for exports to third countries. Blue-prints and technical information will be made available, and, though some of the equipment will continue to be made in France, certain components such as rotary parts of generators or turbine blade sockets will be manufactured in Hungary. Another co-operation agreement provides for Ikarus-built bus bodies to be fitted with Berliet engines and chassis, the buses to be marketed jointly. The combination complements the existing Ikarus and Berliet ranges.

II. ASSEMBLY IN HUNGARY

West Germany

- (a) In 1965, Rheinstahl and the Hungarian Deputy Minister for Foundries and Heavy Engineering signed an agreement on trade and technical co-operation in the production of mining and industrial equipment. Pit props, machine tools, boilers and other goods will be assembled from parts made in both West Germany and Hungary. An agreement between H. Schwarz (a Rheinstahl subsidiary) and Nikex provides for the former to supply documentation on production methods for semi-hydraulic pit props. Components supplied from West Germany will account for 25% of the cost of the final product to be assembled in Hungary.
- (b) Siemens-Reiniger have an agreement with the Medicor works for the joint production of components for x-ray apparatus and for the Hungarian factory to assemble units for Siemens. A further agreement was made in January 1969, under which Siemens will triple its purchase of components for instruments this year and import double that amount in 1970. Siemens is reported to be satisfied with the standard of the Hungarian products and to be selling them under its own trademark.
- (c) Demag have recently signed an agreement for building machinery to be partly assembled in Hungary. This is said to reflect a shortage of capacity in their West German works.

United Kingdom

Dobson Hardwicke have an agreement by which the assembly of hydraulic self-propelling roof support for mines takes place in Hungary, with the UK firm supplying 60% of the parts.

III. COMPONENTS INCORPORATED IN WESTERN EQUIPMENT

The Ludwig Engel engineering company incorporates Hungarian driving gears and components into their own finished products.

Austria

Simmering - Graz-Pauker have provided Hungarian machine tools for use in the repair workshops of a power station supplied to Iran.

IV. PROCESSING

Under various agreements, Hungary imports basic substances from Western countries and processes and finishes them in her own factories.

United Kingdom

Szabadegyhaza Scotch Whisky will be put on the Hungarian market this year. It will be blended according to a Scottish formula, and the basic essence will be imported, as will the equipment, from Scotland.

Switzerland

Geigy will supply Chemolimpex with a basic substance which will be processed and finished in Hungarian factories into an agent for protecting plants from botis nubilalis.

Austria

- (a) The Osterreichische Stickstoffwerke have recently signed a 5 year agreement with Chemolimpex under which the Linz factory will convert tetrachlorbenzene supplied by Hungary into 2, 4, 5-T acid, which in turn will be further processed by the Budapest Chemical Works into weedkiller.
- (b) Under another agreement, the Osterreichische Stickstoffwerke will deliver acrylic type fibre base material for processing into finished man-made fibres by the Hungarian Viscosa Factory.

V. JOINT DELIVERY OF EQUIPMENT TO THIRD COUNTRIES

There has been close co-operation between the Simmering-Graz-Pauker enterprise of Austria and Lang and Ganz in Hungary since 1958. Together they have built power stations in the Lebanon and extended two in India (at Delhi and Faridabad). Hungary supplied the turbines and generators and auxiliary equipment, and Austria the boilers and other equipment.

VI. REPAYMENT IN GOODS

This is a type of barter agreement whereby Hungary pays for Western equipment wholly or partly in goods rather than in convertible currency.

West Germany

- (a) Under the general agreement of 1965, Rheinstahl takes raw materials, semi-finished steel, welding electrodes and ball bearings and helps Hungary to market timber, and tinned fruit and vegetables.
- (b) Spillingwerke and Ganz of Hungary co-operate in producing electric power plants for factories, while Ganz will pay for the Austrian made steam engines with generators.

Italy, France, West Germany and United Kingdom

Agreements for payment for Fiat and Volkswagen motor cars to be made in spare parts and accessories were signed in 1966 and 1967. Payment for Ford Escort cars is to be in unspecified Hungarian industrial products which may include motor car components. There is also a similar agreement with Renault and Simca.

VII. REPAYMENT BY PRODUCTS OF THE EQUIPMENT

West Germany

- (a) As part of the Renault - MAN - Ferrostahl agreement with the Gyor works, under which the latter purchased complete plant and two licences to manufacture MAN diesel engines, 60% was to be repaid by supplying engine spare parts and only 40% in foreign currency.
- (b) Rheinstahl built a radiator factory and agreed to buy part of the radiator production of the Hungarian works at world market prices for 5 years.

- (c) Under a recent agreement, the MBG enterprise supplies tools and plans for the production of electric, gas and coal-fired stoves and receives complete stoves in return.
- (d) The cost of the licence to manufacture pipe straightening and drawing equipment will be repaid to the Kieselring company by spare parts and installation units.
- (e) Agreement between Krupps and the Hungarian Csepel enterprise for the development and joint production of a lathe with electronic control, part of the output of the Hungarian factory to be supplied to Krupps.

United Kingdom

The technical and manufacturing agreement between Electronic Flo-meters and the Hungarian Central Measurement Research Laboratory in co-operation with the Mechanical Instruments factory will be paid for by precision cast components and assemblies.

France

Under a recent agreement, Alsthom is supplying equipment to the Inota Aluminium Smelting Works and in return will receive steel-covered aluminium power transmission wire and heavy-current cables.

VIII. TECHNICAL AGREEMENTS AND EXCHANGES

A. Industrial

France

In 1965 Gaz de France signed a 5 year technical and scientific co-operation agreement with the Hungarian Gas and Oil Authority, covering information on production, storage and transportation of gas. In 1968 a similar 5 year agreement was concluded by Electricité de France.

United Kingdom

- (a) Plant Protection Limited (a subsidiary of ICI) signed an agreement with the Office for Technical Development in conjunction with the Ministry of Agriculture for testing ICI's bipyridyl herbicides in field trials in Hungary. If these prove successful, it is expected that sales of the herbicide will be boosted together with that of agricultural machinery.

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- (b) At the end of 1967 English Electric signed a 10 year agreement with Ganz, under which they will exchange technical information, particularly that concerned with large scale transformers and high voltage switchgear. Ganz will be enabled to build giant transformers up to 400 kv with outputs of 200 MVA and over, for use in the power stations under construction on the Danube.

Austria

A 10 year agreement for the exchange of electric power was signed in 1965, and the link-up was inaugurated in May 1968. Austria will supply electricity in the day-time in summer, while Hungary will do so at night and at weekends during the winter.

West Germany and United Kingdom

Agreements by Volkswagen and Shell to set up service stations in Hungary. The 1969 agreement with Shell to set up 10 more stations provides for forints as well as Western currencies to be accepted in payment. They will be supplied with petrol by the Hungarians processed to Shell specifications.

IX. JOINT COMPANIES

These exist to promote the marketing of Hungarian goods in Western countries and vice versa.

France

Technotrans is a company with 60% of the capital put up by the French and 40% by the Hungarians, which was set up earlier this year between the Companie Francaise des Ferrailles and Technoimpex. The main purpose is to promote the sale of Hungarian machine tools, electric motors and electric appliances in France and to export French products to Hungary. A second company, Dutra Robust, has been established to market and service Hungarian tractors in France.

Finland

The first such company with a non-bloc partner was set up in 1964 to market the products of the electrical and electronics industries in Finland.

Sweden

It has been announced that a joint company formed by A.B. Bygging and Building Enterprise No. 31 is in the process of being established.

United Kingdom

The Richmond joint enterprise will market Hungarian shoes and other goods and aim to treble the value of sales. At a later stage it is envisaged that this may lead to co-operation in production.

United States

Although not strictly a joint company, arrangements have been made for the building of Hilton and Inter-Continental hotels in Budapest. Both hotels will be owned by the Hungarhotels chains, with the Americans providing some of the initial finance, the technical know-how and seeing that service in the hotels is up to standard; in exchange, they will receive a percentage of the turnover from guests from hard currency areas. The Inter-Continental is said to be investing \$4 million and the Hungarian government \$2 million in the project.

X. LICENCES

The majority of the agreements already mentioned involve the purchase of a licence to manufacture the product. The Hungarian metallurgical and engineering enterprises are said to have bought the right to use some 60 patents or have acquired technical know-how from Western countries in the period 1950-1967, half of them since 1962, while in the first six months of 1968 they concluded agreements for 12 more. However, despite the impetus of recent years, Hungarian officials are critical of the progress achieved so far, and complain that the business of buying licences is expanding far too slowly and on far too small a scale. The Hungarians are most concerned to develop this business and prospects for further growth will no doubt be favoured by the new economic mechanism, giving the enterprises more freedom of decision. Indeed, according to the economic weekly 'Figyelo', a five- or six-fold increase in licence and technical know-how purchases is foreseen by the Ministry of Finance in the years ahead, mainly as the result of Hungary's road vehicle development programme. A foreign licence often costs the Hungarian less than relying on their own research and development, even if it needs to be adapted to local standards and conditions. To encourage the acquisition of foreign licences and technological documentation, exemption from import deposits on the accompanying machinery will, under certain circumstances, be granted.

Hungary has been able to sell several licences to Western firms, and she hopes to be able to increase her earnings from such sales but, so far, sales amount to a tiny fraction of purchases. Those already sold include the rights to manufacture the Heller-Fargo air-cooled condensation system for power stations to West Germany, France and the United Kingdom; a method for expanding perlite to West Germany and Switzerland; while Kilmarnock in Scotland is using a Hungarian process in its waterworks.

Although Hungary has many types of co-operation agreements with Western countries, she has not so far permitted any form of equity capital investment in the Hungarian economy, apart possibly from the two hotel projects - the Hilton and Inter-Continental. In these cases, the foreign investors who are putting up the capital to help finance construction of the hotels, as well as providing management expertise, will receive in return a continuing share of the earnings (profits/turnover) in hard currency. The Hungarians are indeed very well aware of the benefits of foreign capital investment to their economy; a good example of this is the recent loan for the aluminium industry. Nevertheless, it is clear that investment in the Western sense will not be allowed by the Hungarians, since this would go against the basic Communist principle of socialist ownership. Nor would there be any question of the Western partner sharing in the direct management of any Hungarian production enterprise. Within these limitations, however, the Hungarians will undoubtedly encourage any schemes by Western firms for capital investment, which benefit the economy.

Examples of licence agreements:

Sweden-France

In early 1968 Budavox made a series of agreements with Ericsson and SAT (the French telecommunications engineering firms) providing for the purchase of production licences and equipment valued at \$10 million. Ericsson will place at the disposal of Budavox the documentation, manufacturing and export rights of its modern crossbar telephone exchange system, which will be produced by the Beloyannis factory from 1971-1972 onwards. Secondly, Ericsson will provide similar facilities to allow them to start producing in 1970 their 300 and 960-channel transmission equipment. In a separate agreement with SAT, Budavox have acquired the equipment and the right to produce special cables which can carry 300, 600 or 900 simultaneous telephone conversations.

Switzerland

Hungary has made licence agreements with Brown Boveri for large turbine and generator production above 100 MW capacity. Hungary has thus avoided dependence on the USSR for this type of equipment, unlike the Soviet Zone and Poland.

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ANNEXE STATISTIQUE

STATISTICAL ANNEX

I. SUPERFICIE : 93.030 Km²
AREA

dont : 60,6 % de terres cultivables
of which : arable land
15,4 % de forêts
forest
13,7 % de pâturages
grass land

II. POPULATION

Population totale (au milieu de 1968) : 10.256.000 habitants
Total population (mid-1968) inhabitants

Densité : 110 habitants au Km²
Inhabitants per sq.m. : 110

Taux d'accroissement annuel net : 0,34 % (moyenne de la
période 1960-68)
Net annual rate of increase ; 0.34 % (average over the
period 1960-68)

Population économiquement active : 5.090.000 (soit 49,8% de
la population totale)
Economically active population : 5.090.000 (49.8% of total
population)

dont 1.490.000 dans l'agriculture
of which 1.490.000 in agriculture

Principales villes
Major towns

Budapest	:	1.990.000 habitants	(au 1er janvier 1968)
		inhabitants	(1st January 1968)
Miskolc	:	180.000	" "
Debrecen	:	150.000	" "
Pécs	:	140.000	" "
Szeged	:	120.000	" "

III. PRODUCTION (principaux indicateurs)
(main indicators)

Produit Matériel Net	:	204 milliards de forints	(1967)
Net Material Product	:	221,2 milliards de forints	(1968)
Produit National Brut	:	\$ 12,9 milliards	(1967)
(estimation occidentale)	:	(aux prix du marché)	
Gross Natural Product	:	\$ 12,9 milliards	(1967)
(western estimate)	:	(in market prices)	

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Energie électrique : 12.490 millions de kWh (1967)
Electric power

Acier : 2.739.000 tonnes (1967)
Steel

Véhicules automobiles : 7.500 (1967)
Motor vehicles

Céréales : 7.477.000 tonnes (1967)
Grain : tons
dont blé : 2.718.000 tonnes
of which wheat : tons

IV. NIVEAUX DE VIE
STANDARD OF LIVING

PNB par habitant (estimation occidentale) : \$ 1230 (1967)
GNP per capita (Western estimate)

Logement : 62,2 % d'appartements d'une seule pièce en 1960
Housing : 62.2 % one room dwellings in 1960

V. GOUVERNEMENT
GOVERNMENT

Budget officiel total : 138.682 millions de forints (1968)
Total official budget 155.929,5 millions de forints (1969)

Budget officiel de défense : 6.439 millions de forints (1968)
Official defence budget 8.029 millions de forints (1969)

Budget de dépense en % du budget total : 4,6 % (1968)
Defence budget as % of total budget 5,1 % (1969)

Budget en % du Produit Matériel net : 62,7 % (1968)
Budget as % of Net Material Product

Budget de défense en % du Produit matériel net : 2,9 % (1968)
Defence budget as % of Net Material Product

VI. DEVISE NATIONALE
NATIONAL CURRENCY

Taux de change officiel : \$ 1 = 11,74 forints
Official exchange rate

Taux de change non-commercial (touristique) : \$ 1 = 30 forints
Non-commercial (tourist) rate

Taux de change commercial { \$ 1 = 60 forints
Commercial rate { rouble = 40 forints

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TABLEAU 2 - TABLE 2

CROISSANCE DU REVENU NATIONAL ET DES PRINCIPAUX SECTEURS DE L'ECONOMIE - 1966-1970
(en pourcentage)

GROWTH OF NATIONAL INCOME AND THE MAIN SECTORS OF THE ECONOMY - 1966-1970
(in per cent)

	1961-1965	1966-1970		1966	1967	1968		1969	
		plan				réalisé	plan		
Revenu national	25	19-21	8	9	5	5-6	5-6	National Income	
Production industrielle brute	47	32-36	7	9	5	6-7	6	Gross Industrial Production	
Construction	35	24-28	11	13	6	6-7	6-7	Construction	
Production agricole brute	10	13-15	8	4	1	3-4	2-3	Gross Agricultural Production	
	1961-1965	1966-1970		1966	1967	1968		1969	
		planned				actual	planned	planned	

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TABLEAU 3 - TABLE 3

CROISSANCE DES PRINCIPALES BRANCHES INDUSTRIELLES - GROWTH OF THE MAIN BRANCHES OF INDUSTRY
(in percentage)

	1966-1970	1966	1967	1968		1969
	plan			réalisé	plan	plan
Mines	n.d.	n.d.	n.d.	3-4	1-2	n.d.
dont : charbon	n.d.	n.d.	- 8	0	n.d.	-
pétrole	n.d.	- 5	- 1	7	8	- 5
gaz naturel	n.d.	40	32	31	10	15
Energie électrique	n.d.		5	5	8	n.d.
Métallurgie	n.d.	7	6	6	4	6
Industrie mécanique	40-45	9	9	8	7-8	7
Matériaux de construction	25-30	10	11	3	6-7	7,5
Produits chimiques	55-60	12	13	10	11-12	9
Industrie légère	20-24	7	10	2	6-7	3
Industrie alimentaire	28-32	3	9	4	5-6	5,5
	1966-1970	1966	1967	1968		1969
	planned			actual	planned	planned

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TABLEAU 4 - TABLE 4

Investissement dans le secteur socialiste
(aux prix courants, en millions de forints)
et leur répartition entre les principaux
secteurs (en pourcentage)

Investment in the Socialist Sector (at current
prices, million forints) and its distribution
between the major sectors (in per cent)

	1961-1965	1966-1970 plan	1966	1967	1968	1969 plan	
Total	212,190	250-260.000	47,658	58,026	68-70.000	73.000	Total
Industrie manufactu- rière et construction	43,7	46-50	45,6	46,7			Manufacturing and Construction
Agriculture	18,2	16-18	16,3	16,0			Agriculture
Transports et communications	13,9	14-16	14,3	14,0			Transport and Communication
Commerce intérieur	3,2	2-3	3,4	3,5			Domestic Trade
Secteurs communaux non-productifs	21,0	16-20	20,4	19,8			Communal, non pro- ductive
	1961-1965	1966-1970 planned	1966	1967	1968	1969 planned	

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TABLEAU 5 - TABLE 5

PRODUCTION DES PRINCIPALES CULTURES ET DE L'ELEVAGE ET EFFECTIFS DU CHEPTTEL
OUTPUT OF MAJOR CROPS AND LIVESTOCK PRODUCTS AND LIVESTOCK POPULATION

	1961-1965 (moyennes)	1966	1967	1968	1969	
<u>Cultures</u> : Blé (en milliers de tonnes métriques)	1.965	2.192	2.718	3.352		<u>Crops</u> : Wheat (1000 metric tons)
Seigle	259	242	225	238		
Orge	966	916	934	904		
Avoine	96	72	86	68,5		
Maïs	3.316	3.907	3.521	3.764		
Graines de tournesol	110	102	79	93,5		
Betteraves à sucre	3.090	3.570	3.354	3.471		
Pommes de terre	1.735	2.433	1.507	1.335		
Maïs pour fourrage	4.041	4.762	3.884	1.324		
frais et silo	955	1.000	1.258	1.008		
<u>Fruits</u> :						<u>Fruits</u> : Livestock Products : Meat (live weight) Milk (million litres) Eggs (million) Wool (tons)
<u>Produits d'élevage</u> :						
Viande (en poids vif)	1.840	1.208	1.211	1.352		
Lait (millions de l.)	1.996	1.795	1.918	1.875		
Oeufs (millions)	9.800	2.436	2.714	2.792		
Laine (tonnes)		9.936	10.100	10.942		
<u>Effectifs du cheptel</u> (Chiffres de mars)						<u>Livestock Population</u> (March figures)
(en milliers de têtes)						Cattle (1.000 head)
Bovins	1.939	1.973	2.014	2.096	2.005	Cows
Vaches	801	766	763	779	749	Horses
Chevaux	364	295	287	274	249	Pigs
Porcins	6.216	5.799	6.005	6.609	5.334	Sows
Truies		472	505	526	402	Sheep
Ovins	3.048	3.270	3.274	3.312	3.277	

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TABEAU 6 : RENDEMENTS MOYENS A L'HECTARE DES PRINCIPALES CULTURES (EN QUINTAUX)

TABLE 6 : AVERAGE YIELDS OF MAJOR CROPS (IN QUINTALS PER HECTARE)

	1961-1965 (moyenne)	1965	1966	1967	1968	
Blé	18,6	21,7	21,6	25,8	25,2	Wheat
Seigle	10,8	11,7	11,6	11,0	12,5	Rye
Orge	18,7	20,2	18,7	20,9		Barley
Maïs	26,1	29,2	31,6	28,5	27,8	Maize
Graines de tournesol	9,6	7,9	10,8	9,6		Sunflower Seed
Betteraves à sucre	246,4	286,1	330,6	324,0	290-312	Sugar Beets
Pommes de terre	79,1	71,9	122,8	89,0	94,0	Potatoes

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TABIEAU 7 : CONSOMMATION D'ENGRAIS ET SURFACES IRRIGUEES

TABIE 7 : FERTILIZER CONSUMPTION AND THE IRRIGATED AREA

Consommation d'engrais	1960	1965	1966	1967	1968	Fertilizer Consumption
Milliers de tonnes de substance active	167,5	357	387	514	629	1.000 tons of active substance
Kilogrammes de substance active par hectare de terre arable	31,5	70,3	76,3	101	124	kilograms of active substance per hectare of arable land
Surfaces irriguées (en hectares)	94.722	99.812	162.872	204607	364.989	Irrigated Area (in hectares)

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TABLÉAU 8 : PARC DES PRINCIPALES MACHINES AGRICOLES

TABLE 8 : STOCK OF MAJOR AGRICULTURAL MACHINES

	1960	1965	1966	1967	1968	
Tracteurs	40.578	63.506	66.795	66.856	64.330	Tractors
Hectares de terre arable par tracteur	131	80	75	75	77	Hectares of arable land per tractor
Charrues à traction mécanique	36.196	54.674	50.822	48.879	44.623	Tractor Ploughs
Semoirs	14.987	23.932	23.730	23.212	23.281	Sowing Machines
Moissonneuses-batteuses	4.167	8.841	9.668	9.805	9.881	Grain Combines

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TABLEAU 9 - TABLE 9

PROGRES DES REVENUS, DE L'EMPLOI ET DE LA PRODUCTIVITE (en pourcentage)

INCREASE IN INCOMES, EMPLOYMENT AND PRODUCTIVITY (in per cent)

	1966	1967	1968		1969 plan	
			réalisé	plan		
Emploi	1	3	3,8	moins de 3	2,5 (1)	Employment
Productivité industrielle	5	6	1,1	4-5	3,5 (1)	Industrial Productivity
Revenus de la population	7	7	8	6	n.d.	Populations Income
Revenus réels (ouvriers et employés)	5	5	5-5,5	3-4	4-5	Real Income (Workers and Employees)
Salaires réels (ouvriers et employés)	2	4	2-2,5	1,5-2	2	Real Wages (Workers and Employees)
Revenus réels (dans l'agriculture)	7	10	9	n.d.	n.d.	Real Income (in agriculture)
Prix de détail	2	1	0,5	1-2	1-2	Retail prices
Commerce de détail	7	10	7	7	8,9	Retail Trade
(1) Estimations	1966	1967	1968 actual	1968 planned	1969 planned	(1) Estimates

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TABIEAU 10 - TABLE 10

STOCK DE BIENS DE CONSOMMATION DURABLES (par millier d'habitants)

STOCK OF DURABLE CONSUMER GOODS (per 1000 inhabitants)

	1960	1966	1967	1968	
Machines à laver électriques	45,2	130,4	142,8	n.d.	Electric washing machines
Réfrigérateurs	3,8	35,9	47,8	n.d.	Refrigerators
Automobiles	3,1	11,5	14,2	15,2	Cars
Postes de radio	222	244	243	n.d.	Wireless sets
Postes de télévision	10,4	97,7	114,4	137	Televisions

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TABIEAU 11 - TABLE 11
BUDGET DE LA HONGRIE - STATE BUDGET

	en millions de forints			millions forints
	1967	1968	1969	1970
RECETTES	104.750	137.282	154.219	168.000
Impôts sur l'industrie, le commerce et l'agriculture	90.853	115.429	133.350	Taxes from industry, trade and agriculture
Impôts sur la population	3.745	7.105	7.900	Population taxes
Divers	10.152	10.152	14.748	Other
DEPENSES	104.700	138.768	155.929	EXPENDITURE
Investissements	51.399	28.799	36.000	Investments
Subventions		37.518	40.820	Subsidies
Sciences, Mesures sociales et culturelles	33.344	34.442	38.126	Science, Social and Cultural
Service de la Dette et Economie nationale	7.674	24.802	25.498	Debt Service and Economic
Défense, Justice et Administration	12.283	13.207	15.486	Defence, Justice and Administration
EXCEDENT OU DEFICIT	+ 500	-1.486	-1.710	- 1.700 SURPLUS OR DEFICIT

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TABLEAU 13 - TABLE 13

REPARTITION GEOGRAPHIQUE DU COMMERCE EXTERIEUR
(en pourcentage)

DISTRIBUTION OF FOREIGN TRADE
(in per cent)

	1960	1963	1964	1965	1966	1967	1968	
Commerce avec l'Union soviétique	30,2	34,3	34,7	35,6	33,1	34,7	37,1	Trade with the Soviet Union
Commerce avec les autres pays communistes	40,7	35,4	34,1	32,9	33,5	32,9	33,0	Trade with other Communist Countries
Commerce avec les pays non-communistes	29,1	30,3	31,2	31,5	33,4	32,4	29,9	Trade with non-Communist Countries

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TABLEAU 14 - TABLE 14

COMPOSITION DU COMMERCE EXTERIEUR PAR GROUPES DE PRODUITS
COMMODITY COMPOSITION OF FOREIGN TRADE

EXPORTATIONS	% du commerce total		dont, à destination des pays communistes	à destination des pays non-communistes	EXPORTS
	1967	1968			
1) Combustibles, énergie électrique	1,2	1,3	28,6	71,4	1) Fuels, electric energy
2) Matières premières	7,7	7,8	33,6	66,4	2) Raw materials
3) Produits semi-finis et pièces de rechange	19,3	17,9	61,3	38,7	3) Semi-finished goods and spare parts
4) Machines et équipement	25,1	27,4	93,6	6,4	4) Machinery and equipment
5) Biens de consommation industriels	23,6	24,3	72,2	27,8	5) Industrial consumer goods
6) Produits alimentaires	23,1	21,2	48,5	51,5	6) Foodstuffs
IMPORTATIONS	% of total trade		of which, from Communist Countries	from non-Communist Countries	IMPORTS
	1967	1968	1967	1968	
1) Combustibles, énergie électrique	7,4	7,7	98,5	1,5	1) Fuels, electric energy
2) Matières premières	23,6	25,0	60,6	39,4	2) Raw materials
3) Produits semi-finis et pièces de rechange	26,4	29,0	76,8	23,2	3) Semi-finished goods and spare parts
4) Machines et équipement	23,6	19,9	80,3	19,7	4) Machinery and equipment
5) Biens de consommation industriels	7,5	7,6	42,7	57,3	5) Industrial consumer goods
6) Produits alimentaires	11,5	10,8	85,3	14,7	6) Foodstuffs

Source : Annuaire statistique de la Hongrie - 1968 Hungarian Statistical Yearbook 1968