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Introduction

In the years around and following the turn of the millennium, development of the Hungarian economy was in harmony in more and more areas with the trade fluctuations of the economically developed world, primarily the European Union. Economic growth accelerated, its rate exceeded that of the Western European countries. The faster-than-average increase gradually cut the lag that was higher at the beginning of the nineties than ever before. The significant inflow of foreign direct investment played a role of increasing importance in the modernisation of the economy and in increasing its export-competitiveness. The transformation of the socio-economic structure accelerated, which – among others – led to an increasing proportion of services, and above all business services both in production and employment. Among goods-producing branches it was primarily manufacturing that played a more and more important role. Having acceded to the European Union, integration and harmonisation kept strengthening.

After the turn of the millennium the economy expanded at a relatively high and even rate of around 4% per annum. From the use side, however, both consumption and gross capital formation grew by leaps and to a very high extent in a few years at the beginning of the 2000s, domestic use more and more exceeded production, economic potential. The growing external and budget deficits prevented to a higher and higher degree the socio-economic development, and the harmony with the boom of developed economies came to an end. The use of external sources increased foreign debt substantially and its ratio to domestic performance.

Government measures started in 2006 – aiming at improving the balance, and particularly reducing the unsustainable deficit of the general government, and cutting primarily demand – resulted in a considerable slowdown of the dynamics of growth. As a result of structural reform efforts and general government budget adjustments, the structure of economic development relying on three pillars in previous years, namely the growth of investments, consumption and exports, transformed from 2006 onwards, and with the factors of domestic use narrowing, it was more and more exports that drove the increase.

One of the factors influencing the drop of household consumption was the fall of real earnings in 2007. The reason for this was the substantial rise of consumer prices in addition to changes to the tax and contribution system. The decrease of actual final consumption of households took place along with the fall in transfers received from the government.

Investment as the factor of demand representing nearly a quarter of GDP plays an important part on the one hand in influencing the structure of growth, and, on the other hand, extends the stock of available capital, important from the point of view of the economy on the supply side and indicates expectations of market players. Its slowdown may mean the loss of not only the present but also the future growth impetus.
As for the structure, general government budget adjustments – which play a major role in the declining rate of increase – were primarily based on a raise of revenues and only to a smaller extent on reduction of expenditures, while the level of redistribution can be regarded invariably high.

In addition to the beneficial result on the budget, the balance-improving measures influenced several other areas such as economic growth, competitiveness and labour market. These spillover effects, however, are difficult to reveal in the short run through – mainly preliminary – annual data of 2007. Analyses were made using data of 2007, though data referring to last year have not yet been available for certain areas. In the latter cases data available for the most recent years have been used in line with the practice of former years. The source of international data was typically international official organisations (Eurostat, OECD and UN).
Employment and unemployment

On the labour market of Hungary, there was no essential change in 2007, the number and share of employed and unemployed persons was practically the same as one year before. In the population aged 15–74, the number of employed persons was 3 million 926 thousand, 4 thousand fewer than in the previous year, while the number of unemployed persons amounted to 312 thousand, 5 thousand down on the value of 2007. 99.3% of the people on the labour market were 15–64 year-old, which complied with the social and employment conditions in force. Since the turn of the millennium, employment has changed unevenly. The number of employed aged 15–64 increased by 65 thousand or 1.7% and reached the highest level in the last two years. Unemployment rate was the lowest in 2001 (5.7%), then it increased till 2006 (7.5%), and slightly fell in 2007 (7.4%).

From 2000, the employment rate of the population aged 15–64 grew by 1.3 percentage points reaching 57.3% and did not change compared to 2006. The level of employment was low in international comparison and the difference from the EU-27 average increased (from 6.2 to 8.1 percentage points). The indicator exceeded only the rates for Poland and Malta and was similar to the levels in Romania and Italy. The main reason for low employment rate is that people whose highest level of education is primary school have bad chances to find a job; 27% of them were employed in 2007. This rate was 48% on the average in the EU member states. In case of people with higher levels of education (secondary or tertiary education), the difference was much less.

Another reason for low employment is that atypical forms of employment are not really common in Hungary. The share of part-time employment did not change essentially, the proportion of employees with fixed-term labour contract increased slightly, while that of sole proprietors and members of partnerships diminished somewhat. In Hungary, less than 4% of employees were working in part-time jobs, which was similar to the rate for the Czech Republic and Greece. According to the most recent data of Q2 2007, this indicator is 17.7% in the EU-27 member states, and, within them, the rate is the highest in the Netherlands (46.3%). In Hungary, 7.3% of the employees had a fixed-term labour contract, which was up by 0.6 percentage points from the previous year. (The EU-27 average was 14.5%).

The sex and age composition of employed persons did not change significantly in the past years. Out of one hundred employed persons 55 were males and 45 were females. Broken down by age-groups, employment of young people and older age-groups is remarkable to analyse.

Employment of young people (15–24 year-old) declined further to some extent, and thus 21% of them were present on the labour market. The strong competition prevailing among young people from the beginning of the decade is in connection with the expansion of tertiary education. As a perspective, higher qualification improves the chances to find a job but in the short run it expands the inactive life-phase in economic sense. Due to the longer time of education, a large number of people born in the second half of the 1970s start work later and appear
on the labour market as competitors for those some years younger. A significant share, almost 70% of young people participated in formal or other education in 2007. Since in Hungary, contrary to other EU member states, there is no tradition of working while studying, longer student life decreases the level of employment in general and the employment of this age-group.

74.6% of people of „best” working age (25–54 year-old) were working, which meant an increase of 0.4 percentage point compared to 2006. Within this, employment rate of women aged between 30 and 40 diminished due to having children later in life.

Following an improvement in the past years, employment of older age-groups (55–64 year-old) decreased to 33.1% in 2007 as a consequence of the change in retirement age and the stricter retirement rules. The direction change occurred in the age-group 55–59, where employment rate increased from 24.8% in the late nineties to 49.9% till 2006. Earlier, this age-group served as a source for a slight increase in employment, however, its employment rate fell to 48.4% last year.

In most EU member states, the level of employment was higher in the older age-groups than among young people. In 2007, the employment rate in Hungary was below the EU average most significantly in case of young and older employees (16.2 and 8.2 percentage points respectively), while the lag was the least in case of people of „best” working age (4.5 percentage points).

There was no considerable change in the sectoral structure of employment. The number of employed persons in manufacturing and construction rose in 2007 by 7 thousand and 9 thousand, respectively. In some service branches, mainly in the three branches of public services: public administration, education and health and social work, the number of employees decreased. On the other hand, the workforce increased in the branches trade and repair, other community and personal services and financial intermediation, while it practically stagnated in transport, storage and communication. On the whole, the number of employees in the service branches fell by 8 thousand in 2007, which was decisively due to the decreasing number of employees in the non-market services. The ability to retain labour continued to weaken in agriculture, which represented the smallest share in employment among the branches.

Share of employees with fixed-term contracts increased among employed people, which can be attributed to the measures aiming at „whitening” the grey economy. In financial fields, where the number of employees grew probably the most dynamically, most of the insurance agents working earlier with agent contracts entered into employment in the course of the year. In branches like construction, where odd job is

1 The sectoral structure of employment, data of education and regional structures refer to the population aged 15–74.
traditionally widespread, the number of employees grew significantly, while the performance of the branch fell.

The overwhelming majority (88%) of employed persons worked as employees. Their share was slightly rising and was similar to the level in the majority of EU member states. The proportion of people working at sole proprietorships and partnerships decreased somewhat in 2007 compared to the year before.

The annual change of unemployment was varying from the turn of the millennium and in 2007 it decreased slightly. The unemployment rate was 7.4%, 0.1 percentage point down over the previous year. The indicator decreased in case of both sexes compared to 2006 and was over the average for women (7.6%) and below the average for men (7.1%). For the population aged 15–64 the unemployment rate in Hungary was somewhat higher than the EU-27 average.

Youth (15–24 year-olds) unemployment increased to a high extent in 2004–2005 (by 3.9 percentage points), afterwards it diminished slightly in 2006 and significantly in 2007. In this way, the rate decreased from 19.1% to 18.0% in one year. 37% of young people were unqualified, which was detrimental to their chances to find a job. The rate of long-term unemployed, i.e. those not having a job for at least one year, was much above the average among them. Within the age-group, unemployment rate of 20–29 year-old graduates decreased by nearly 1 percentage point to 6.1% compared to the year before.

The rate of long-term unemployment was 48% last year compared to 47% in 2006. Their chances to find a job are worsened by the fact that 71% of them have finished only primary school or secondary school without G.C.E. Within this group, the number of those who had not found a job for more than two years remained high, about 65 thousand. The average duration of job search increased from 16.5 months to 17.5 months in one year.

In 2007, the number of job vacancies increased slightly compared to the previous year and reached about 38 thousand, which was, considering the whole year, by 13% more on the average than in 2006. The growth was higher in the private sector (17%), while only 6% in the budgetary sector. The on the whole moderate demand was directed first of all at highly qualified workforce.

Over the year, there was no significant change in the economically inactive population considered as source of workforce. Among 15–64 year-old population, 2 million 591 thousand people did not appear on the labour market either as employed or as unemployed. Their number decreased by 155 thousand from the turn of the millennium and by nearly 2 thousand compared to the year before. Their sex and age composition differed significantly from that of

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Table 1: Employment and unemployment rate by the highest level of education, 2007

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<th>Highest level of education</th>
<th>Employment rate</th>
<th>Unemployment rate</th>
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<tbody>
<tr>
<td>Less than 8 grades of primary school</td>
<td>4.9</td>
<td>46.3</td>
</tr>
<tr>
<td>Primary school</td>
<td>22.2</td>
<td>16.2</td>
</tr>
<tr>
<td>Vocational and apprentice school</td>
<td>67.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Grammar school</td>
<td>41.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Secondary school</td>
<td>66.1</td>
<td>5.6</td>
</tr>
<tr>
<td>College</td>
<td>73.5</td>
<td>3.5</td>
</tr>
<tr>
<td>University</td>
<td>74.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td><strong>50.9</strong></td>
<td><strong>7.4</strong></td>
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2 Calculated for persons aged 15–74.
The labour market status of regions was essentially unchanged in 2007, and the existing disparities did not decrease. The employment rate remained the highest (56.2%) and unemployment rate the lowest (4.7%) in Central Hungary. Contrarily, the labour market situation was the worst in Northern Hungary, where the level of employment was the lowest (44.7%) and the unemployment rate was the highest (12.3%) in the country, though employment rate rose by 1.1 percentage points in two years. In the field of employment, a disadvantageous change occurred in Southern Transdanubia and Northern Great Plain, where employment rate fell by 2.0 and 0.5 percentage points respectively in one year. In the other regions, the indicator remained the same or increased to some extent. Among the seven regions, unemployment rate increased in Southern Transdanubia (by 1.0 percentage point) and Northern Hungary (by 1.3 percentage points), while stagnation or decrease was characteristic of the other regions.
Income and consumption

Following the significant fall in the years after the transition, the income position of the population improved continuously for 10 years between 1997 and 2006. The rate of change was however quite different year by year. After a 6.3% growth in 2002, real income per capita increased at a more and more moderate pace till 2006, and based on data, which are not full-range but of determinant weight, in 2007 it did not reach the level of the year before. Real wages fell namely by almost 5% last year, social benefits in kind decreased by 8–9%, and though the social benefits in cash involving mostly pensions grew at current prices, their real value did not exceed the level one year before. Income changes determined largely the dynamics of consumption as well.

Earnings

A moderated dynamics of nominal wages (first of all net wages) was characteristic of last year. Its background was the still existing impact of the raise of health insurance and employee’s contributions burdening employees in September 2006 and the second raise of health contribution rate in January 2007. Average gross nominal wage per capita in full-time employment was HUF 185 thousand last year. Non-manual workers earned an average of HUF 255,600, while manual workers HUF 122,600. Gross wages grew in nominal terms by 8.0% on 2006, of which the dynamics was 6.7% for non-manual and 9.6% for manual workers. Last year, gross wages of employees in the private sector rose by 9.1%, while in public sector by 6.4%. The average wage of manual workers in the private sector exceeded again that of employees in the public sector. The average wage for non-manual workers was invariably lower in the public sector than in the private sector, and the difference did not change in 2007 since the dynamics of gross earnings rise were the same in the two sectors. The earnings lag of non-manual workers in budgetary institutions was increasing during the past years: it was 8% in 2003, 13% in 2005 and 16% in each of the last two years.

Figure 4: Average gross monthly earnings

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<tr>
<td>2001</td>
<td>0</td>
<td>300</td>
<td>200</td>
<td>50</td>
</tr>
<tr>
<td>2002</td>
<td>50</td>
<td>250</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>2003</td>
<td>100</td>
<td>200</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>2004</td>
<td>150</td>
<td>250</td>
<td>150</td>
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<tr>
<td>2005</td>
<td>200</td>
<td>300</td>
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<tr>
<td>2006</td>
<td>250</td>
<td>350</td>
<td>250</td>
<td>200</td>
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<tr>
<td>2007</td>
<td>300</td>
<td>400</td>
<td>300</td>
<td>250</td>
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Earnings differences between the branches changed only slightly. Similarly to the previous years, average gross earnings of employees in financial intermediation were the most outstanding (HUF 390,400),...
2.1 times as high as the national average (in 2006 it was 2.4 times as high). This was followed by public administration, compulsory social security, electricity and chemical industry, where the gross wages were 28–37% above the national average. It was unchanged that the lowest average earnings (HUF 103,400) were in the manufacturing of textile, textile products and leather products, footwear, at 56% of the national average, contrary to the 55% in 2006. The situation in the branches of hotels and restaurants, manufacturing not elsewhere classified, agriculture and construction was somewhat more favourable, where persons employed earned 61–73% of the national average. In 2007 the gap between the highest and the lowest average earnings decreased slightly in the economic branches observed. The average gross earnings of textile industry workers were 26% of those employed in financial intermediation, which figure was 23% one year earlier.

In addition to the monthly earnings, income from work also includes other benefits in cash and in kind for people in employment. In 2007 the average monthly income from work was HUF 195,300, HUF 10,300 more than average gross earnings. The rate of “other labour incomes” was 5.3% as opposed to the 5.0% one year before. This rate was 6.0% in the public and 5.0% in the private sector. Other labour income accounts for the highest proportion, 6.6–7.9% invariably in public administration, chemical industry, financial intermediation, transport, storage and communication as well as in electricity, while it is the lowest, 3.4–3.6% in trade and repair as well as hotels and restaurants.

Average net monthly earnings stood at HUF 114,100 in 2007, 2.8% more at current prices than the year before. Net earnings accounted for 62% of gross earnings, contrary to the 65% one year earlier. The earnings for manual workers were HUF 85,100 and for non-manual workers HUF 146,900. As in the previous years, the net earnings difference between these two categories did not change essentially. As a result of the progressive pattern of personal income tax, sectoral differences of net earnings are smaller than those of gross earnings. Net earnings level of the textile and leather industry reached 36% of that of financial intermediation. This figure was 32% a year before.

Though there was a nominal rise in wages smaller than in former years, it was more balanced in the regions, thus the level differences between regions remained substantially unchanged. The increase of the net value of monthly earnings exceeded the national average in all the three regions of Transdanubia, it was equal to the average in Central Hungary, while remained below it in Northern Hungary and in the regions on the Great Plain. In the regions net earnings rose by 2.0–3.8% on the previous year. In 2007 the average net wages remained the highest in Central Hungary at HUF 131,800, which exceeded the national average by 15%. Workers in the two regions of the Great Plain earned the least (HUF 96,700), which was 85% of the national average. The advantage of the highest-earning region over the lowest was the same, 36% in the past two years.

On the whole, real value of earnings was up by 39% between 2000 and 2007, within this there was a fall of 4.8% in 2007.

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3 Meals and accommodation allowance, reimbursement of travel expenses to work, long service bonus, bonus in kind, company car-related expenses etc.
The government restrictions mentioned earlier and the accelerating consumer price rise were in the background of last year’s changes. Considering the whole year, the decrease of real earnings moderated quarter by quarter, from 7% in Q1 to 2.2% in Q4. During the year real earnings fell by 5.8% in the public sector and by 4.1% in the private sector.

In international terms, the level of earnings is realistic to be analysed in purchasing power standard (PPS\textsuperscript{4}) calculated by purchasing power parity, which eliminates the price level differences. The comparison of countries refers to annual wages in 2006 and to the industrial and the services sectors. The wage level determined this way was the highest in Luxembourg, the United Kingdom and Germany (41–42 thousand purchasing power standard) and the lowest in Bulgaria and Romania (5–6 thousand PPS). Among the new member states the wage level of Cyprus was outstanding, nearly 24 thousand PPS, exceeding by 33% the level in Portugal and 4% the level in Spain among old member states. Hungary is among the countries of lower wage level; it corresponded to 13 thousand PPS in 2006, a level similar to that in the Czech Republic and in Slovakia.

Social incomes in cash

In 2005 – according to the method of calculation of Eurostat – member states of the European Union spent an average 27% of their gross domestic product on social protection (and 17% on social incomes in cash). This proportion reached 30% in France, Sweden, Denmark and Belgium, while varied between 12% and 13% in the Baltic states, which was considerably, some 7 percentage points lower than the average expenditure of the 10 new member states. Among new member states social expenditure reached or exceeded a fifth of GDP in Slovenia (24%), Hungary (21%) and Poland (20%). The largest component of expenditure was – in each member state – pensions. In 2005 member states spent 12% of gross domestic product on pensions, the most, 14–15% in Austria and Italy, while the least, 5–7% of GDP in Ireland, Romania, the Baltic states and Cyprus.

In Hungary, the fall in the number of recipients of pensions since 1999 continued. 3 million 25 thousand persons received pensions or retirement provisions in 2007, 3 thousand fewer than in the previous year, and 78 thousand less than at the turn of the millennium. In 2007 over 56% of recipients received old-age pensions,

\textsuperscript{4} Purchasing Power Standard.
further significant proportion – somewhat more than a quarter – of them were given disability pensions, and 7–8% were paid pensions, benefits or supplements due to some handicap or reduced working ability. In addition, 148 thousand and over 100 thousand persons were paid widowhood pensions and orphan’s allowance, respectively.

10.9% of GDP was spent on pensions or retirement provisions in Hungary in 2007, which means that HUF 2,769 billion were spent on these types of payments from social security and non-social security sources. The monthly amount per recipient rose by 10.4% over a year, and exceeded HUF 76 thousand. As the consumer price index calculated for pensioners was up by 10.7%, the real value of pensions was unchanged in 2007 (after a rise by 4.5% in 2006). The difference between earnings and pensions continued to shrink: the ratio of pension provision to net earnings increased by nearly 5 percentage points to 67% over a year.

The state spent almost 2% of GDP on family support and child care in 2007. 1.2 million families received family allowance for 2 million children over the course of the year, 23 thousand forints per month on average, which, at current prices, was more than in the previous year but slightly less in real terms. Child care allowance and child care fee were claimed by 164 thousand and nearly 94 thousand persons, respectively. The per capita average monthly amount of the former was 5.2%, while that of the latter 9.1% more than in the previous year.

In December 2007, almost 96 thousand persons received job-seeker’s allowance (unemployment benefit). Their number went up by 4,200 over a year. The average monthly amount of job-seeker’s allowance per capita came to HUF 47,700 in December 2007, which was 4,000 forints (9.3%) higher than in the same period of 2006.

Regular social support was paid to 140 thousand persons in 2007, 17% more than a year earlier.

Financial assets of households

At year-end 2007, households had gross financial assets of HUF 23.8 trillion, 10.3% more than a year earlier. Growth decelerated in 2007 as well.

At year-end 2007 shares and share stakes, with a weight of 36%, had the
largest part in savings. From these, shares and business stakes, as instruments of the highest value, had a worth of HUF 6.1 trillion, 8.5% more than the level twelve months earlier. Continuing the tendency of the prior years, mutual funds shares, in stock value, show a significant growth of nearly 30% and their value of around HUF 2.4 trillion more than tripled over three years. In sum, the ratio of shares and stakes to gross financial assets showed an increasing tendency over the past years, which was mostly accompanied with the lessening share of cash and deposit assets.

At year-end 2007, this latter saving form had a nearly equal share in savings as shares and stakes; their value approached HUF 8.5 trillion, in which deposits had a share of about 3 quarters and cash assets had a one-quarter share. In cash assets, saving instruments kept in foreign currencies – following a more than 2.2 times growth in 2006 – showed no further growth in 2007 and amounted to HUF 123 billion at year-end. In 2007, foreign exchange deposits – following a growth of more than 30% in the prior year – had a value increase of 12% and amounted to HUF 942 billion. This accounted for a share of 15% in the overall deposit stock reflecting an increase of nearly four percentage points over three years. The HUF 5.5 trillion worth of HUF deposit stock had a significantly lower rate of increase (6%) in 2007 as well, than what was observable for the financial assets on the whole, though it represented an acceleration on the 2% increase of the prior year, which might be connected to the introduction of the interest tax. In December 2007, demand and current account deposits had an average annualized interest rate of 2.6%, time deposits had 7.2%, within this one-year plus deposits kept showing lower levels.

In 2007, insurance technical reserves had an increase of 18%, which was the highest among major financial instruments; their year-end stock amounted to HUF 4.6 trillion. From the two most important investment forms belonging here pension fund reserves accounted for HUF 2.8 trillion, while reserves with life insurance features represented HUF 1.5 trillion at year-end.

Liabilities had an increase of one fifth, a rate equal to last year’s. At year-end in the HUF 8.1 trillion worth of stock, credits and loans had a share of more than nine tenths, while other accounts payable constituted the remaining part. Tendencies of prior years continued in the credit stock: real estate loans – though with their share of 43% still being the most significant group – kept declining, while consumer and other loans with their share of 38% at year-end 2007 had a gain of more than ten percentage points over three years and a gain of nearly 4 percentage points compared to a year ago. In this latter group, at year-end 2007, consumer loans had a worth of more than HUF 2.1 trillion, in which mortgage equity withdrawals had a share of nearly three fifths.

In the maturity of consumer loans, over the past years a significant shift occurred in the direction of long-term loans. Five-year plus loans, over a year, increased their share from 55% at year-end 2005 to 67%, then in 2007 another increase of 12 percentage points was experienced. The share of loans provided by other financial intermediaries (financial and investing companies, leasing companies, investment funds and their managers) – besides an increasing value – kept decreasing and amounted to 18% as an average of different credit types.
In 2007, foreign exchange loans had a significant stock increase again: while each of year 2005 and year 2006 showed an around HUF 0.9 trillion growth, year 2007 brought an increase of HUF 1.4 trillion, which enhanced the overall amount of this liability type to HUF 4.4 trillion at year-end. As a result of this significant growth, foreign currency loans in the overall credit stock increased their share from 27% at year-end 2004 to 59% at year-end 2007. Regarding specific credit types, in consumption and other credits, foreign currency loans had a share of nearly two thirds opposed to 21% at year-end 2004. Within real estate loans a similar shift occurred to foreign currency loans, though their share at the end of the preceding year was below 50%. Within foreign currency loans Swiss franc denominated mortgage loans of unrestricted use and home mortgages, over 12 months, both grew by essentially same amounts totalling HUF 740 billion. The fact that Swiss franc denominated credit services kept growing can be attributed to their interest conditions more favourable than in case of the Hungarian currency.

HUF denominated variable rate real estate mortgages provided for households had an average annualized interest rate of 9.7% in December 2007; in the same month Swiss franc denominated credits had an interest rate of 4.4% on average.

In 2007, **net financial assets** of households – parallel to an inflation of 8% – grew by 6% and amounted to HUF 15.7 trillion. At year-end 2007 their net assets corresponded to 61.9% of gross domestic product, a half percentage point behind the rate a year ago, but exceeding to a higher degree the two as well as three years earlier ones. In 2007, net assets had a lower growth rate compared with the prior years, since year 2006 showed a 10, while the preceding year a 13% growth rate. Considering their value, net financial assets had a growth of nearly HUF 0.9 trillion in 2007 opposed to gains of HUF 1.3 and HUF 1.5 trillion, respectively in 2006 and 2005.
The deposit-loan ratio – continuing the tendency of preceding years – kept declining in 2007. At year-end 2006, deposits totalled slightly less than the overall amount of credits, at year-end 2007 this ratio decreased to 87%. In case of foreign currencies as early as at year-end 2004 the stock of liabilities exceeded that of assets; this latter one covering somewhat more than half of credits. This ratio decreased further over consecutive years and at year-end 2007 foreign currency loans had a 4.6 times higher stock value than the amount of overall deposits.

Consumption

Rather significant annual fluctuations could be observed in the dynamics of household consumption in the past few years. In the first three years of the new millennium the 13% growth of GDP was parallel to a 25% rise of actual final consumption of households. To correct the resulting disproportionality, the dynamics of consumption were permanently lower than those of production in the subsequent years, which led to the drop of consumption in 2007, while production increased modestly. In 2004–2007 (during 4 years) GDP and actual final consumption of households were up by 15% and 6.4%, respectively.

The pattern of consumption was highly influenced by the change of incomes and especially earnings. Besides these, however, borrowing – first for accumulation (construction), then for consumption purposes and for unrestricted use as well – plays a role of increasing importance in financing household expenditure. Stock of household credits rose by HUF 1 trillion both in 2005 and 2006 and by HUF 1.3 trillion in 2007. For comparison: this amount reached one tenth of the 13.1 trillion forints of household consumption expenditure in 2007.

Household consumption expenditure accounts for the decisive majority, some 80%, while social transfers in kind for approximately one fifth of actual final consumption of households. Although the two components changed in the same direction, there was a difference in the extent: their rate of growth slowed down in 2006, and their volume was lower in 2007 than in the previous year. However, household consumption expenditure decreased only slightly (by 0.3%), while the volume of social transfers in kind was considerably, some 8% lower than in the previous year.

Conclusions can be drawn from retail trade turnover data and consumer price trends on certain changes in the structure of consumption. Retail sales of food decreased to a lower degree than the average, while food prices rose to a much higher extent than the average, so the proportion of food in consumption last year is supposed to have stopped decreasing and to have increased instead. Though the energy
consumption of households lessened somewhat, electricity, gas and other fuel prices rose so much (by 25%) that their share in consumption grew, and further significant increases of water, sewage disposal and refuse collection charges also raised the proportion of housing group as a whole. The inclusion of certain costs (visit fee etc.) in prices and the growing volume and the over 17% price level rise of medicaments sold both contributed to the expansion of household expenditure on health care.

The volume of clothing and footwear sold decreased, while their price level hardly rose (by 1%), thus the share of this group in consumption, which had already been low earlier on, declined further. The majority of transport-related household expenditure is made up of the purchase and maintenance of motor vehicles. The fall of the sales of cars and car parts and accessories and the lower-than-average price rise cut the proportion of these items in 2007. In addition, though the volume of fuel sold increased somewhat, its annual average price level did not rise.

According to the calculations of Eurostat on the level of actual individual consumption in 2006, per capita consumption of Hungarian households reached 65% of the EU-27 average, the same rate as in the case of GDP per inhabitant. Both indicators show some – 2 percentage-point – rise as compared to two years before. This level was identical to that of Estonia, exceeded those of six newly acceded member states, and was 7–8% lower than that of the Czech Republic ranked right before Hungary.

**Consumer prices**

In 2007, consumer prices exceeded by 8.0% the average level measured in the previous year. It was a substantial increase compared to the rate observed in 2006 (3.9%). The acceleration stemmed substantially from the intentions of the economic policy to improve the balance, and was directly related to the change of tax rates in September 2006, the increase of excise duty and the transformation of the gas price support system, as well as the administrative price measures in force since January–February 2007. Constant tax rate index equalled 106.8% in 2007, i.e. tax changes raised the consumer price index by somewhat more than an average 1 percentage point in the course of the year. In addition, the fast price rise was also in connection with unforeseen international market effects, e.g. the lack of cereals at an international level, and with domestic factors as well – above all the unfavourable agricultural circumstances, the drought. However, the strengthening forint slowed down the price rise. In external trade over the course of the year, exchange rate of the forint strengthened by over 6% against major currencies compared to the year before.

Consumer prices rose by 5.6% on the average in the last four years. The annual average price rise of food was 7.1%, alcoholic beverages and tobacco prices increased by 6.4%, clothing and footwear became 1.0% more expensive, electricity, gas and other fuel prices went up by 12.8%, while consumer durable goods prices were down by 2.0%.

In 2007, too, the prices of electricity, gas and other fuel rose the most, by nearly 25% on the average. Food price rise, equal to 11.5%, was significant as well. In the rest of the main groups of expenditure one-digit price increases were measured, while the prices of consumer durable goods continued to diminish.
The income position of pensioners allows for a poorer living than that of active population. Accordingly, even though they spend less on food, the proportion (relative weight) of food is higher in their consumption. It is attributable to other factors – mainly their older age – that pensioners spend a larger proportion of their income on medicament than other strata of the population. These articles suffered a higher-than-average price increase.

Pensioners were hit by price rises more severely than the average: the consumer price index calculated for pensioners showed a 10.7% increase in 2007. The rise concerning active households was lower, 7.2%. According to a breakdown by income size, the stratum with the lowest income suffered the highest price rise (9.4%), households with high incomes were affected the least by price augmentations (6.6%), while those with mean incomes were hit by price rises by and large around the average.

In the past four years, too, the consumer price increase affected pensioners the most, at an annual average rate of 6.7%, whereas it was 5.1% on the average in case of active households. Prices rose by an annual average of 6.3% in the expenditure structure of households with low income, and by 4.9% in that of households with high income.

Last year the only consumer price rise in the European Union that was higher than the Hungarian was measured in Latvia (where the increase equalled 10.1% if measured with the harmonised consumer price index). A rate of inflation (7.6%) similar to ours was observed in Bulgaria. The lowest price increase (0.7%) was measured in Malta. Consumer prices were up by 2.4% on the average in the 27 member states during the year, and by 2.3% one year earlier.

According to the classification of individual consumption by purpose (COICOP) the prices of most product and service groups increased by 1–4% on the average in the EU in 2007, those of telecommunications decreased by 2%, the prices of clothing and footwear, as well as recreation and culture were essentially unchanged, while those of education increased sharply (by 8.6%).

### Table 2: Consumer price changes (%)

<table>
<thead>
<tr>
<th>Main group of consumption</th>
<th>Average of 2004–2007</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>7.1</td>
<td>11.5</td>
</tr>
<tr>
<td>Alcoholic beverages, tobacco</td>
<td>6.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Consumer durable goods</td>
<td>–2.0</td>
<td>–1.3</td>
</tr>
<tr>
<td>Electricity, gas and other fuel</td>
<td>12.8</td>
<td>24.6</td>
</tr>
<tr>
<td>Other commodities, fuels</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Services</td>
<td>6.2</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.6</strong></td>
<td><strong>8.0</strong></td>
</tr>
</tbody>
</table>

HUNGARY, 2007
Population

The population of Hungary was 10 million 45 thousand on 1 January 2008. The actual change in population size is determined by the natural decrease and the positive international net migration. Last year both factors changed unfavourably. The decrease in the number of births, the rise in the number of deaths and the gain from international migration lower than in the previous years resulted in an actual population decrease of 21 thousand people, contrary to the decrease of 10,500 in 2006. The slow rise in the number of births following the nadir in 2003 broke off in 2007, and fewer children were born than a year before. The number of deaths, following the lowest value of the past three decades in 2006, increased again, thus interrupting the past years’ trend. The number of abortions continued to decline. The variety of partner relationship forms and the rapid spread of cohabiting relationship are shown by a spectacular rise in the rate of children born outside marriage. Most children continue to be born in long-lasting partner relationship.

Similarly to other European countries, the age-tree illustrating the age composition of the population shows an ageing population, where the male surplus characteristic till the age of 39 is offset at the age between 40–44 and an increasing female surplus can be seen over the age 45. In connection with the changes in the number of births, the number of nursery- and primary school-age (7–14 year-old) children fell sharply (by 10 and 15%, respectively), while that of infant nursery-age children slightly increased (by nearly 3%). The number of population in economically active age groups (15–64 year-old) did not change essentially, while that of older population rose by about 5%. Since 2006 the rate of population aged 65 years and over has exceeded the share of child-age (0–14 year-old) population. On 1 January 2008, the rate was 108 old-age people per 100 child-age people. Among the EU-27 member states, we are the 13th in respect of the rate of old-age people and the 9th considering the rate of child-age population.

The change in the forms of cohabitation having lasted for many years continued in 2007, too. Fewer and fewer people get married and, among the population aged 15 and over, the rate of unmarried people has grown by 11 percentage points reaching 31.1%, while that of the divorced has risen by 3 percentage points to 10.3% since 1990. In parallel, the rate of married people decreased by 14 percentage points. While less than half of the population (47.2%) is married, the cohabiting relationship5 is becoming more and more frequent (8.7%). On the whole, 57–58% of the adult population is living in long-lasting partner relationships.

Besides the basically decreasing trend, the number of marriages underwent fluctuations in the past few years, but did not reach the level at the turn of the millennium in any of the years. In 2007 there were 40,800 marriages, which meant a fall of 8.4% over the year. In the 130-year-old

5 According to the data of the micro census in 2005.
history of official vital statistics, the number of marriages was fewer than in 2007 only in three years of the 1st World War, between 1915 and 1917. The average age of marrying persons went up. Marriages of teenagers nearly ceased to exist, and a significant fall can be observed as well for females in their early twenties. Ten years ago marriages were most common at this age, while they shifted to the second half of females’ twenties nowadays. Males get married mostly at the age of 30–34. The willingness to get married slightly increased among 40–44 year-olds, presumably due to re-marriages, while it declined in the other age-groups.

There was no significant change in the number of divorces in 2007. The courts dissolved 24,900 marriages, about the same number as the year before. People get married at a later age and divorces occur in older age as well. Divorces remained the most frequent among women in their twenties, but their intensity decreased in the recent years, while that of divorces in age-group 30–44 strengthened. It is unchanged that significantly more marriages (75,200) ended owing to widowhood or divorce than the number of new marriages.

The number of births sank below 100 thousand in 1998 for the first time and has not reached that level since that time. In the three years after the nadir in 2003, a slow growth occurred, which was followed by a decrease again in 2007. Last year 97,600 children were born, 2,300 (2.3%) less than the year before. The number of live births per thousand inhabitants fell from 9.9 in 2006 to 9.7. The expanded learning time, people becoming independent at later age, and the changes in the forms of cohabitation have all had an impact on the number of live births for many years already.

A special demographic feature of the increase in the number of births in the last three years was that the declining fertility of the younger age-groups was successfully counterbalanced by the rise in child-bearing of women over 30, a tendency which did not continue in 2007. The average child-bearing age rose by nearly three years to 29.1 in the last ten years. Within this, females under the age 25 bear a child more and more rarely, while child-bearing is the most frequent in the age-groups of 25–29 and 30–34, and the rise is the most dynamic in the latter one. Females in their early thirties bear a child much more frequently today than those aged 20–24. Fertility of 30–34 year-old females rose by 31% in the last five years, and bearing a child is more and more common over the age of 35 as well. In the last five years, the number of births among women aged 40–44 increased by 37%.

In the aspect of having a child, the quality and stability of partner relationship is a significant factor. The child-bearing frequency of women living in marriage is
still more than twice as high as that of unmarried ones. Among females of fertility age the share of single women living in cohabiting relationship increased sharply and that of married women fell back. In parallel with the change in partner relationships, the number and rate of children born outside marriage increased further, and in 2007, for the first time since the beginning of official vital statistics, 37.5% of children were born outside marriage. Therefore, the decrease in the number of births in 2007 was fully due to the fall in the number of children born in marriage, which could not be counterbalanced by the increase of extramarital births.

Among live births the number of premature babies is always decreasing. The rate of newborn babies weighing less than 2,500 grams fell from 8.4% in 2000 to 8.2% in 2007.

In 2007 fertility sank to the level of 2005. Total fertility rate expresses the average number of children that would be born to a hundred women during their lifetime if the age-specific fertility rates of the respective calendar year prevailed. The long-term reproduction of the population would be guaranteed by a rate of 210. Considering last year’s fertility, hundred women would give birth to 132 children during their lifetime, contrary to the figure of 135 in 2006.

The number of abortions continued to decrease in the last years. The 44 thousand induced abortions carried out in 2007 were 5% (by 2,300 abortions) less than in the previous year. The number of abortions is less than half of the number in the early 1990s and decreased by about 25% compared to the value at the turn of the millennium. The frequency of abortions diminished in all age-groups, and in 2007 there were 45 abortions per hundred live births.

The basically declining trend in the number of deaths in the last 15 years was broken off by an increase in some years. The number of deaths was 132,800 in 2007, 0.9% (1,200 persons) up on 2006. The number of deaths per one thousand inhabitants was 13.2 in 2007, by 0.1 per mille higher than a year before. 80% of the death surplus concerned the middle-aged (35–49 year-old) female population. Among males the mortality of those aged 70 and over increased.

Most people die of diseases of the circulatory system (more than half of the deceased) and neoplasms (one fourth of the deceased). Neoplasms are more frequent among males – causing 27% of deaths, while this figure is only 22% among females. However, diseases of the circulatory system cause the death of an increasing number of females. In 2006, 57% of those deceased from circulatory diseases were females. Half of these more than 36 thousand women died of ischaemic heart diseases, 23% of them of cerebral artery diseases and one tenth of them due to problems connected to high blood pressure.

The number of infants who died before their first birthday increased to 575 from the previous year’s value of 571. The rate of infant mortality rose from the lowest value so far (5.7 per mille) to 5.9 per mille over the year.

The regional differences in live births and deaths are strong and reflect the differences in economic development, traditions and social conditions among regions. Live birth rate is the highest in Northern Great Plain, which is also characterized by a medium level of mortality in domestic terms. Northern Hungary stands in the first place concerning death rate and in the middle of the line in respect of live
birth rate. In Southern Great Plain, live birth rate is the lowest and death rate is the second highest among regions.

The differences in life chances in the regions are demonstrated in the differences in causes of death as well. Diseases of the circulatory, respiratory and digestive system cause the death of the most people in Northern Hungary. There are no significant differences in cancer death risks. The number of TB victims is the highest in Central Hungary, probably due to the large number of homeless people. Casualties due to accidents and other violence are the most frequent in Southern Great Plain. Suicides are above the average in the whole Great Plain. The number of suicides fell by 47% compared to its peak in 1987. However, we are still among the top ten countries on a world scale.

Natural decrease of the population, as a balance of births and deaths has lasted since 1981, which has been partly offset by positive international net migration. In 2007 the natural decrease of the population accelerated, the number of deaths exceeded the number of births by 35,200, and the positive balance of international net migration could be estimated to be 14,200 persons. The natural decrease of the population was by nearly 3,500 persons more, while the surplus from international migration by 7,100 persons less than one year before. Therefore, the actual decrease doubled.

The number of internal migrations was 529 thousand in 2007, 8% more than in the preceding year and 22% more than two years before. Within this, the number of permanent internal migrations grew by 4.7%, while temporary internal migrations by 12.1% over the year 2006.

In the last fifteen years, one determinant of internal migration in Hungary was the outward migration from Budapest, which showed a declining tendency. In 2007, the positive balance of internal migration in Budapest was a new phenomenon: the pop-
The population of the capital grew by 5,400 persons. The balance of internal migration was slightly positive in the other towns, too, while it was negative in the villages due to temporary internal migrations. Among regions, internal net migration showed an outstandingly positive balance in Central Hungary, and it was positive in Central Transdanubia and Western Transdanubia as well. The population retaining power of Northern Hungary and Northern Great Plain weakened further with internal migration losses of 9,100 and 8,400 persons, respectively, in 2007.

**International net migration** was positive in each region of Hungary in 2007, within that outstanding in Central Hungary, where the positive balance was 6,200 persons, 2,900 persons (32%) less than in the preceding year. Due to the existing living and working conditions, the population gain of the region was mainly characteristic of the settlements in the Budapest agglomeration. Besides, Western Transdanubia, Northern Great Plain and Southern Great Plain were attractive areas in respect of international migration. In Southern Great Plain the gain from international migration increased significantly, by 1,000 persons and the number of foreign immigrants reached 3,150.

### Table 3: Main vital statistical data by regions, 2007

<table>
<thead>
<tr>
<th>Region</th>
<th>Live births</th>
<th>Deaths</th>
<th>Natural decrease (-)</th>
<th>Net migration</th>
<th>Actual increase, decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>internal</td>
<td>international migration</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>internal</td>
<td>international migration</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Actual increase, decrease (-)</td>
<td></td>
</tr>
<tr>
<td>Central Hungary</td>
<td>10.2</td>
<td>12.6</td>
<td>–2.4</td>
<td>8.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Central Transdanubia</td>
<td>9.3</td>
<td>12.5</td>
<td>–3.1</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Western Transdanubia</td>
<td>8.9</td>
<td>12.9</td>
<td>–4.1</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Southern Transdanubia</td>
<td>9.0</td>
<td>13.6</td>
<td>–4.6</td>
<td>–3.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>9.8</td>
<td>14.2</td>
<td>–4.4</td>
<td>–7.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Northern Great Plain</td>
<td>10.3</td>
<td>12.8</td>
<td>–2.5</td>
<td>–5.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Southern Great Plain</td>
<td>8.8</td>
<td>14.0</td>
<td>–5.2</td>
<td>–2.5</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Country total</strong></td>
<td><strong>9.7</strong></td>
<td><strong>13.2</strong></td>
<td><strong>–3.5</strong></td>
<td>–</td>
<td><strong>1.4</strong></td>
</tr>
</tbody>
</table>
Among regions, the actual population number increased only in Central Hungary last year, by more than 22 thousand. By contrast, the actual decrease of the population was the highest in Northern Hungary and Northern Great Plain, where the population size fell by 14,350 and 10,450 persons, respectively, in one year.

On 1 January 2008, there were 175 thousand foreign nationals in Hungary holding residence permits. This was 5.4% or 9 thousand up on the previous year. At present, 1.7% of the population of Hungary are foreign nationals. The overwhelming majority came invariably from Europe, principally Romania, Ukraine, the former Yugoslavian states and, among old EU member states, Germany. 41% of immigrants live in Budapest, 38% in other towns and 21% in villages. Average age of immigrants is lower than that of the native population, and the most significant number and proportion of immigrants were aged between 20 and 39.

In 2006, 6,101 people were granted Hungarian citizenship, as opposed to 9,870 in the preceding year. The main reason for the significant decrease was that the effect of changes to legal rules in 2005 (the process of granting citizenship was simplified and became more rapid) did not prevail any more. 71% of citizenship recipients were former Romanians, 9% Ukrainians and 7% Serbians and Montenegrins.

In respect of live birth rate and fertility, Hungary is in the middle, while concerning death rate is in the last third of the range among EU member states. Natural decrease of the population, as a balance of births and deaths is characteristic of ten countries in the EU, and Hungary is among them. In most EU member states, like in Hungary, the natural increase/decrease of the population is influenced positively by the population gain from international net migration.
Health, social services

Due to the special features of data collection, similarly to the practice of previous years, data of 2007 relating to health and social services are only available to a limited extent.

Health

For 14 years, deaths have shown a fluctuating but basically falling trend in Hungary. During that time life expectancy has risen annually by nearly 4 months on the average. Life expectancy at birth exceeded 69 years for males and 77 years for females in 2006, but it is still below the EU average by more than 5 and 3 years, respectively. For males 85%, while for females 79% of expected lifetime is spent in health. Women’s longer lifespan is made up by longer healthy and longer disease periods than in case of men. Higher school attainment – in case of both sexes – and living in settlements with a higher number of inhabitants correlate with a longer healthy lifespan.

Health consciousness of the population can be expressed mostly by the number of consultations between doctors and patients. Latency is significant, locomotor diseases, diseases of the circulatory system and the musculoskeletal system and diabetes mellitus are considered endemic diseases. Adults turned to their General Practitioner most frequently because of high blood pressure: in 2005 more than 2 million such patients were registered. 734 thousand patients visited the GP because of ischaemic heart diseases, 715 thousand with dorsopathies and 545 thousand because of diabetes mellitus. The number of cases among 0–18 year-olds is increasing year by year. Children are taken to family paediatricians or GPs most frequently due to diseases of the blood and blood-forming organs (mainly anaemia). 2.7% of children aged 0–18 are anaemic and almost 3% suffer from asthma. The number of asthmatic children has grown 1.5-fold since the turn of the millennium, and the number of minors turning to doctor with posture problems increased to nearly the same extent. There are more and more children suffering from high blood pressure (more than 9,000 in 2005), and their number is increasing spectacularly, similarly to the abovementioned diseases.

Doctors screen children in schools and nurseries. The most frequent alterations are flat foot and eye refraction problems. They are followed by posture problems and overweight in case of 5-year-old children. Among examined primary school pupils of third and fifth grade, overweight is the third most frequent disorder, but from the ninth grade posture problems turn more frequent than overweight.

The patient turnover of General Practitioners has grown by 16% since the turn of the millennium. The number of patients directed to ECG, X-ray and laboratory grew by 39%, 45% more patients were sent to other specialists’ consultation, and the number of those referred to hospital grew by 23%.

In 2006 patients visited outpatient services in 73 million cases, first of all with the aim of laboratory or other diagnostic examinations. Out of clinical branches physiotherapy, internal medical departments and rheumatology were the most visited.

According to the data of the National Health Insurance Fund, hospital beds numbered 48 thousand in acute wards and nearly 30 thousand in chronic wards in December 2007. The
number of active beds fell by one fifth, while that of chronic beds grew by 45% until the end of 2006. At the end of the year hospital bed occupancy rate was over 100% in radiation therapy and gynaecologic wards. The next highest rates were recorded in neonatal intensive care centres, oncological and youth psychiatric wards. 29% of the chronic hospital days were spent in internal medical wards, and 22–22% in psychiatric and rehabilitation wards.

The visit fee and hospital day care fee introduced at the beginning of the year resulted in nearly HUF 13 billion extra income for the health service providers. 46% of this amount was received by GP-s, 6% by dentists, 5% by laboratories and 31% by other specialists. Hospital day care fee amounted to 12% of this sum.

In Hungary more than 66 thousand new cancer patients are diagnosed every year. Only some hundreds of them are aged under 19, and there are more males among them than females (381/100,000 males and 268/100,000 females). Most people (10,500) were affected by lung, trachea and bronchial cancer in 2006. The number of newly diagnosed breast cancer was 7,600, prostate cancer 3,800 and colorectal cancer 5,200.

Both death statistics and patient turnover data show that diseases that are in majority in Hungary are somehow in connection with lifestyle. Lifestyle plays a role in the development of these diseases in 50–75%, while genetic factor in 15–30%, though in case of healthy lifestyle these do not necessarily develop. Overweight and posture problems appear already frequently in nursery-school age and accompany the whole school-age. Inactive lifestyle (lack of exercise) together with smoking and alcohol consumption in adulthood means a high risk-factor in the development of several sometimes lethal diseases, such as high blood pressure, coronary diseases, diabetes mellitus or colorectal cancer.

Lack of regular physical training, abundant nutrition and unhealthy food composition lead straight to overweight and then obesity. WHO declared obesity an independent disease in 1998 and considers it as the second most important avoidable health damaging factor after smoking. 34% of the Hungarian population is overweight (body mass index is between 25 and 30), and nearly one fifth is obese (body mass index is more than 30). The share of overweight males is 22% already at the age of 18–24, while this rate is 13% among women of this age-group. In the aspect of overweight Hungary is in the worst third among EU member states. Similarly to the United Kingdom, Germany, Greece, the Czech Republic and Slovakia, the share of obesity being an even larger health risk factor is high in Hungary as well.

According to the data of OECD, one third of the Hungarian adults smoke regularly, this rate being the fifth highest among EU member states. There are especially many smokers in the young age-group of 15–24 years; in the EU the share of smoking young males is higher only in Estonia, while there are more smoking young females only in Austria and the United Kingdom.

Compared to the number of population, the most new lung and bronchial cancers are diagnosed in Hungary among EU countries, and we are the second in deaths caused by chronic lung diseases (bronchitis, emphysema, asthma) after Denmark. More patients with lung diseases are treated in and discharged from the hospitals of the Baltic states, Romania and Bulgaria only.

According to the data of the national health survey, 18% of males and 2.5% of females are hard drinkers, while the rate of occasional

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6 Body mass index: weight divided by the square of height in metres.
drinkers is 55% and 21%, respectively. Though the number of persons deceased due to alcoholic liver diseases (3,540) and the number of alcohol addicts estimated from the former figure (510 thousand) have been decreasing since 2000, the problem still exists. The persons concerned do not easily face their situation, therefore only a fraction of those being in need of help (29 thousand) visits addictology dispensaries. The annual alcohol consumption per capita is 12 litre equivalent of pure alcohol. Alcohol consumption is higher only in two EU member states (Luxembourg and the Czech Republic). Similarly to smoking-related deaths, the number of alcohol-related deaths is rather high.

In 2007, the 915 ambulance cars of the National Ambulance Service waited for emergency calls at 224 ambulance stations. The network of ambulance stations has increased by 40% since the 1980s, however, the number of running ambulance cars fell by a quarter. 48% of the ambulance missions were emergency ambulance duties, while 52% were simple patient transport. This rate was 24–76% at the beginning of the 1990s when there were no private ambulance services in Hungary yet. Private ambulance services have been operating in Hungary since the 1990s and the 65 companies outside the National Ambulance Service established the National Association of Emergency Ambulance and Patient Transport Services (MBOE) in 1995 supervised by the National Patient Transport Service (OBSZ) since 2007. MBOE, having

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Table 4: Share of daily smokers in the different age-groups of the population

<table>
<thead>
<tr>
<th>Sex</th>
<th>18–24 year-old</th>
<th>25–44 year-old</th>
<th>45–64 year-old</th>
<th>Over 65 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>45.1</td>
<td>42.1</td>
<td>37.6</td>
<td>15.9</td>
<td>37.1</td>
</tr>
<tr>
<td>Female</td>
<td>30.9</td>
<td>35.0</td>
<td>25.0</td>
<td>5.3</td>
<td>24.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38.3</strong></td>
<td><strong>38.6</strong></td>
<td><strong>30.9</strong></td>
<td><strong>9.3</strong></td>
<td><strong>30.5</strong></td>
</tr>
</tbody>
</table>

Source: OECD.
incorporated more than 20 new companies up to now, disposes of 450 ambulance cars, 31% of which are suitable for transport of patients confined to bed as well.

Since 1 January 2008 the National Ambulance Service and MBOE have been performing emergency ambulance and patient transport, duties separately. Private service providers may perform only duties of patient transport, which do not need the presence of a doctor or emergency medical technician. The main duty of the National Ambulance Service is emergency rescue, and it is the only organization which may perform patient transport in serious cases or abroad, secure events and which has an air rescue capacity. The doctor ordering the transport is responsible for the interpretation of the task.

It is more advantageous if recovering or old patients are treated in their own homes. They are recovering more quickly at home, and it is a cost-saving solution for the society since the cost of „hotel services” in hospital is not imposed on the treatment. 46 thousand patients were provided with home care services in 2006, 22% more than 6 years ago. More than half of the patients were provided with special home care services, 37% of them were helped by physiotherapy in recovery. The number of patients treated with physiotherapy has grown by 40% since 2000. One patient was visited 25 times on the average, and the patients receiving speech therapy were visited most often (38 times).

185 thousand jobs were filled in health care in 2006, one fifth of which by physicians and 56% by ancillary workers. Most of the physicians (12,400) were employed in inpatient service, 7,100 worked as General Practitioners and 8,700 in outpatient service. The work of one physician was helped by 4–5 specialized nurses in the inpatient service, 1–2 in the outpatient service and by 1 in the GP practices. In the budgetary public health institutions the number of employees decreased by 5.5% between 2005 and 2006 and by 8.7% between 2006 and 2007, while there was an increase of 17 and 7.6%, respectively, in the staff number of other health institutions.

**Social services**

European democracies are deeply pervaded by the idea of social solidarity. The proper share of self-provision and solidarity and the way of caring for those who are disadvantaged in some aspect is continuously in the centre of interest.

63% of social provisions are cash allowances, a rate similar to the EU average (66%). However, the difference is high in respect of connecting provisions to the...
examination of being in need. In Hungary only 5.3% of the provisions depend on the earnings position of the recipient, which rate is 10.5% in the EU.

The Hungarian system spends more on sickness/healthcare benefits, disability benefits and family/children benefits, while in the EU the unemployed, people excluded from society and survivors are supported more on the average.

58% of social protection revenues come from the employers’ and employees’ social contribution, while 35% is financed from the state budget. Social contribution is paid in 73% by the employers and in 27% by the employees, while this rate is 65–35% in the EU, i.e. employers have to pay a much larger share in Hungary.

Following the new Act on Child Protection, child welfare services have been developed from the family assistance system, which operated from the mid-1980s. At present, child welfare services are operated in 92%, while family assistance services in 72% of the settlements. Much more people were helped by family assistance services (462 thousand persons in 2007) than by child welfare services (122 thousand persons in 2007). The reason is presumably that the absolute voluntariness characteristic of family assistance services is hardly typical of child welfare services and often painful decisions must be made in the interest of a child. More than 5% of minors took advantage of child welfare services. The rate calculated for the whole population was the same at the family assistance services. More than 60% of the new contacts were established on the initiative of the child welfare service or the competent doctor, MCH nurse or teacher in order to improve the minor’s environment. Most frequently married couples with children and couples living in cohabiting partnership (40%) asked for the help of family assistance services, while one fourth of the users of serv-
ices lived alone. The difficult situation is often in connection with economic activity, since three fourths of the clients are unemployed or inactive earners. Most often (88%) services and material goods are provided as assistance, but the professionals also advise on debt management and there are youth advisory services as well. 66 thousand people participated in the group therapies of the services on about 17 thousand occasions in 2007.

In 2007 more than 85 thousand people lived in 1,290 long-term and 362 short-term residential institutions, most of them in long-term care. 51 thousand of them were pensioners, 16 thousand disabled, 8 thousand psychiatric patients and 2 thousand addicts. 7 thousand people lived in homeless or night shelters. There were 92 day centres and 40 public kitchens available for homeless people. Day centres and public kitchens were operated mainly by local governments and foundations or associations. The capacity of public kitchens was more than 4 thousand persons, while that of day centres about 6 thousand. This number is by 400 lower and 2,400 higher, respectively than one year earlier. The daily attendance of day centres exceeded their capacity, while that of public kitchens was below it.

39 thousand pensioners find company and programmes in the 1,224 pensioners' clubs of the country. This service is popular among elderly people, as the utilization of the clubs is 96%. In the framework of domestic care (46 thousand) and social catering (102 thousand), addicts, psychiatric patients, disabled and old-aged people unable to care for themselves are provided with care and meal. 93% of those receiving domestic care and 76% of those demanding social catering are over the age of 60.

18 thousand disabled people used the supportive service aiming primarily to facilitate to reach the public services outside home. In the framework of community services 4,580 psychiatric patients and 6,970 addicts were treated and rehabilitated in home environment.

At family assistance services 2,792 people perform some kind of professional activity. The annual number of new contacts per one colleague is about 170. The burdens on the colleagues of family assistance services in Northern Great Plain are nearly twice as much, while in Northern Hungary by one fifth more.

205 thousand endangered minors in more than 90 thousand families were registered at guardianship authorities in 2007. Their number has fallen by one fifth since 2000. Half of the children got to the attention of the guardianship authority due to financial reasons, 23% of them because of the family environment and one fifth because of behavioural problems. About 30 thousand children were under guardianship.
Housing

In Hungary, at the end of 2007, the number of dwellings was 4 million 270 thousand, 0.8% more than a year ago. This stemmed from an increase of 7% in the number of completed dwellings and a 16% fall in the number of dwellings ceased. The ratio of one hundred rooms to residents has been below 100 since the turn of the century, at year-end 2007 it was 91. Besides a growing housing stock a declining population contributed to a decreasing residential density.

1–2-room dwellings had a share of more than half (53%) in the housing stock. As in recent years small flats have had a growing share in dwelling constructions, since 2005 a slight increase could be observed in the number of one-room flats in the housing stock. 4-room or larger dwellings have also had an increase of share, while the share of 2-room ones has somewhat fallen in recent years.

89% of dwellings had water connection, 57% had sewage connection, nearly 90% had bath- or washroom, and 86% had toilet.

A five-year-long boom in dwelling construction after the turn of the millennium generated a construction increase of at least 10% in all years. Following the record year of 2004 (24%), 2005 brought a slight (6%), 2006 a significant (18%) fall. In 2007 a new boom was started in dwelling construction: more than 36 thousand dwellings received occupancy permits and more than 44 thousand new dwellings received construction permits. Thus the number of completed dwellings grew by 7%, while 1% fewer construction permits were issued than a year ago.

Since the low point of 1999 dwelling construction has been determined by the quantity of dwellings built by entrepreneurs for sale, in urban, primarily multi-storey, multi-dwelling buildings. Evolution in own-purpose, detached-house and rural constructions has not changed considerably for years.

Figure 18: Some characteristics of dwelling construction (shares)

Since 2001, dwelling construction has been featured by an expansion of urban, since 2004 explicitly capital city projects, which was linked to a post-2000 boom in commercial dwelling construction. In 2006, a 33% volume decrease in Budapest and a 20% volume decrease in commercial dwelling construction played the largest role in the decrease. The construction growth of 2007 was also mainly typical for commercial dwelling construction and for construction by entrepreneurs, primarily in capital city districts.
In 2007, 46% of completed dwellings were built by enterprises. „Do-it-yourself” construction kept declining, 72% of dwellings were built by construction organizations. Detached-house and apartment complex construction stagnated, while 41% more dwellings were completed in group dwellings and 18% more in new, multi-storey, multi-apartment buildings. More dwellings were built with a floor area below 60 sq. m; however, the number of larger dwellings grew below the average, which lessened further, by 2 sq. m, the average ground floor area of new dwellings to 87 sq. m.

Territorial distribution in dwelling construction, following the turn of the millennium, became uneven in many respects. Besides a strong Budapest boom, specific dwelling construction performances in other towns moved along with the national average, however, in villages the post-2001 performances were below the national ones.

In regions, dwelling construction intensity is connected with demographic processes. In Central Hungary, as a result of internal and external migration, the population grew, thus most dwellings were built here. Northern Hungary was the other extreme with the largest population decline (decisively due to internal migration losses), and this region reported the fewest new dwellings in 2007.

Dwelling construction, mainly concentrated in Budapest and its surroundings raised the national average so much that most regions were unable to reach it, only Central Hungary and Western Transdanubia had an above average ratio of dwellings to ten thousand inhabitants. The relatively even regional performances of 2000 diverged significantly over five years, Northern Hungary and Southern Great Plain were hardly affected by the boom.

In the past eight years nearly 42 thousand dwellings were ceased. This decrease was slow and volatile; the 4,100 lost dwellings of 2007 were only the two thirds of the value of 2000.

On 31 December 2007 housing loans totalled HUF3,109 billion – 12% of GDP – and
foreign exchange loans had a share of 47%. The stock, in which foreign exchange loans have a growing share, has been rising continuously since 2002. The highest increase took place in 2003, when it doubled over one year. In 2007 131 thousand loans were granted with a value of HUF 768 billion, in which foreign currency loans had a share of 84%. 13% of granted loans were state-subsidized. Over the first half-year the average loan was HUF 5.5 million, in the second half-year by HUF 700 thousand more.

### Conditions and protection of environment

In Hungary, from the change of regime to the turn of the millennium the emission of air pollutants – except methane – declined, since then a minor fluctuation can be observed concerning some items. However, the specific pollution level of the union, in emitted volumes, was not reached by any of the pollutants in 2005.

![Figure 21: Per capita emission of air pollutants, 2005 (as the percentage of the EU–27 average)](image)

Out of greenhouse gases, proportionately, carbon-dioxide, methane and dinitrogen-oxide played a major role in burdening the environment, contributing to the climate change. Though the emitted carbon-dioxide had a volume decrease of one fifth in the last 15 years, recent years showed a larger fluctuation, while 2005 saw a slight increase (2.6%). 4–5% of atmospheric volume is bound by our forests. Largest volumes are emitted by fossil power plants, transport, residents (burning fossils) and industry. Methane is the second most important greenhouse gas and though its volume is much lesser than that of carbon-dioxide, its heating capacity is twenty-one times higher. Its major emitters are waste fills, mining, natural gas producers and agriculture. Methane pollution increased by 12% in 2004, and started to decrease again in 2005. Dinitrogen-oxide has an even higher global warming capacity (310 times as much as that of carbon-dioxide) and remains more than 100 years in the atmosphere. In emissions – which fell by 3% in 2005 – agriculture had a share of 68%, while fertilizer and nitric acid manufacturing had a share of 23%.

Among traditional air pollutants nitrogen-oxides (13%) and non-volatile methane compounds (13%) as well as ammonia (8%) have had an increase of emission, while that of solid matter (1.1%) declined slightly.

Climate and its change influence the economy and the society primarily as a water-related issue. Hungary, from this aspect, is in a relatively favourable position; our per capita water production is over 2000 cubic m per year, which is unique not only in Europe, but also in global comparison. An overwhelming part in production (97%) originates from surface waters. 90% of water is used in power plants as cooling water, utility water services account for 3.8%, manufacturing for only 0.4%, agriculture for 3.2%. In Hungary, water demand
has been declining steadily since the beginning of the 1990s, primarily that of irrigation and households and to a large extent that of industrial users, too. Multi-fold increase in water prices played a major role in this, prices in 2007 were 75% higher than in 2000.

Pollution of Hungary’s waters is determined fundamentally by municipal wastewaters, including residential and industrial wastewaters. Sewage hills are formed under the unsewered settlements, i.e. the ground water is risen and contaminated. As a result of sewer projects in recent years by 2006 72% of dwellings with water supply were connected to public sewerage as opposed to 55% in 2000. Reflecting a decreasing water use, public sewers had a multiyear decline in the volume of wastewater disposal; however, from 2003 onwards a slight increase occurred, 8% by 2006. 72% of disposed wastewater is treated biologically.

More than two thirds of water utility services are for residential drinking water supply, while nearly one third is for business and public purposes. Though practically all Hungarian settlements have piped water supply, there are significant discrepancies in residential service levels coming partly from settlement structure causes. Nearly 7% of population still rely on street, yard taps for taking drinking water. 42% of water utility services are below statutory requirements, which affect 27% of population. These areas are mostly situated in the Great Plain, Northern Hungary and Southern Transdanubia. In 2006, 24 settlements needed bottled water provision. The number of these settlements was 18 in 2000, and 78 five years earlier.

Over past years, generated waste volumes had a decrease on the whole, but a rearrangement occurred among waste groups. Non-hazardous wastes had a volume decrease of 16%, while hazardous ones had a volume increase of 41%. Municipal wastes – in a volatile manner – have had a volume decrease for years.

Recycling of precious materials in wastes as well as disposing wastes in line with environmental aspects is an expensive task. In Hungary and in neighbouring countries disposal is the most frequent waste management procedure, but this is the least environment-friendly handling method: leading to leakage of toxic substances into the ground water, emission of poisonous gases, loss of precious areas and enhancing levels of traffic. However, its costs are lower than those of incineration or recycling. Incineration also generates poisonous gases and slag, although it is able to produce electricity and reduce disposable volumes significantly.

EU expects the member states to increase the share of recycling and biologic
treatments. Germany and the Netherlands are in the forefront of applying modern technologies (Germany recycles 1.5 times, the Netherlands 2.7 times more wastes than the quantity disposed in landfills). These technologies have also appeared in our country.

In Hungary, organic matter had a share of nearly one third in municipal wastes, plastic and paper, respectively, had shares of 18% and 16%, while textile, metal and glass had 2% each. In a European comparison plastics had a fairly high share in our country.

From an environmental point of view the quality of urban life is influenced by several factors. Air quality deterioration is caused by industrial, household and transport pollution. In recent decades household pollution kept declining, because gas and central heating systems are gradually replacing coal burning. In the 1990s, owing to production decreases, restructuring and the enforcement of more stringent regulations industrial emission declined. At present, transport is the prime polluter of the urban air. Following the change of regime road vehicles – except motorcycles and buses – have had a significant stock growth. Since 2000 passenger cars and lorries have had a stock increase of one fourth, while motorcycles have numbered 43%, trailers 62% and slow vehicles three fourths more. Though local roads had a network increase of 45% over the past ten years, urban networks were unable to keep pace with an accelerated motorisation, and the peak periods are more congested. Several settlements are bisected by national roads, deteriorating the local quality of life and the condition of roads. Hungarian urban population is quite largely exposed to ozone-generated air pollution. Urban background stations of agglomerations show the seventh highest ozone concentration in EU-comparison.

Transport is a major source for burden of noise besides air pollution. In Hungary, 13% of population are exposed to noise pressure levels in disturbing ranges. Their overwhelming part (87%) was generated by transport. Besides this, 58% of inhabitants have to tolerate basic noise levels similar to noise pressure levels of human speech, which are mainly (72%) transport-generated, too.

Urban green areas are highly important to protect air quality, enhance vapour content, improve endowments in water management as well as to form local ventilation systems. Hungarian towns are traditionally characterized by detached housing, but the enhancement of urban features requires more green areas. In 2005, in Hungarian towns, regarding municipal green areas the per capita value was 18 sq. m. Among urban green areas public parks had a share of 64%, public gardens accounted for 17%, while the remaining areas were covered by...
forests. 85% of these areas are under regular municipal maintenance.

In 2006, investments in environment protection totalled HUF 202 billion accounting for 4.4% in overall implemented investments. Volume for direct investments in environment protection accounting for 71% lessened by 17% on the prior year, while that of technology process-based, more modern integrated investments grew by 59%. 56% of investments were implemented by public administration. Intra-organization conservation investments totalled HUF 195 billion, while corporations paid out HUF 199 billion to conservation service providers. Among conservation investments sewage treatment (43%), waste management (17%), air quality protection (14%), ground and subsoil water protection (11%) were the major items.
In 2007, the number of **publicly indicted crimes detected** was essentially the same as one year before: authorities finished the proceeding in 426,900 crimes and offences, which exceeds only by about 1,000 (0.2%) the previous year’s figure. Within this, the number of crimes diminished by 4.8%, while that of offences was 4% up on 2006. The majority, i.e. three fifths of violations of law, was again crimes against property. There were 4,250 crimes committed per one hundred thousand inhabitants, by 15 more than one year earlier.

Among crimes influencing the feeling of safety of people probably the most directly, the number of dwelling burglaries fell by 3.3%, car thefts by 1.7% and homicides by 12.6% over the year, while that of robberies exceeded the figure of 2006 by 15%. There was a significant change in the number of frauds representing a high share (nearly 10%) within the different crime types: 41 thousand frauds (crimes or offences) were committed in 2007, 75% more than a year before. Last year, the number of drug abuses was 4,672, almost 40% down on 2005 (the peak till now) and 31% less than one year earlier. Among crime types in the centre of public interest, there were 4 terrorist actions in 2007 as opposed to the 6 cases one year earlier, and the share of threatening with public danger fell significantly (by 31%), while that of cruelties to animals grew by 15% and violence against officers by 21%.

In 2007 the **structure of crimes** changed so that the number of crimes against person, against property and traffic crimes grew, while there was a decrease in the other main crime categories. In figures, the number of crimes against public order fell the most, by 7 thousand (8%) due to the decrease of private document forgery and drug abuse representing a large proportion. Besides, the number of crimes against maternity, family, youth and sexual morals went down considerably, by 5,700 or 27%, which was connected to the sharp (more than 5 thousand) decrease of abuse of banned pornographic photography. In the other main crime categories the fall was between 8 and 22%. There were 5.2% more crimes and offences against the person, and both the number of traffic crimes and crimes against the property exceeded by 6.2% the level of the previous year. The number of homicides fell by 22 to 152 cases. The number of intentional assaults also diminished, by 371. Alcohol played a role in the majority of traffic crimes and the number of drink-driving cases rose somewhat as well.
The share of crimes detected diminished from 61.2% in 2006 to 59.1%. 116 thousand perpetrators were discovered, 5.5% less than in 2006. (The number of non-indictable children fell by 5% to 3,400.) 9.4% of the perpetrators were juveniles and 3.8% were foreign citizens. The number of persons belonging to either of these groups decreased during the year, the number of foreign perpetrators more significantly, by 21%. 66.3% of the perpetrators had no previous criminal record, which share exceeded by 2.7 percentage points that one year before. Most of the perpetrators (85%) were still men, their share even grew slightly during the year. Alcohol or drugs played a part in the crimes of over one fifth of them. Among them the rate of those under the influence of alcohol was higher (89%), their number increased by 2.5%, while the number of perpetrators under the influence of drugs was substantially the same as one year earlier. In 2007, 41% of the perpetrators committed crimes against property, 24% against law and order and 17% against traffic rules. Except for traffic crimes the number of perpetrators fell in each main category; the number of perpetrators of economic crimes decreased to the highest degree (by nearly 25%).

There were 231 thousand persons offended in crimes in 2007, which number exceeded by about 8% the value of the previous year. Among them the number of both the child and the juvenile victims lessened. Of persons offended 7,245 were foreigners, 0.5% fewer than in 2006. 38% of the victims were offended in public places, 1% more than one year earlier, while the number of victims of crimes of violence and ruffianism fell by 0.6%.

The number of convicts with definitive sentence decreased moderately in 2006 and more sharply in 2007. Their number was 87,500 last year, 10.2% less than one year earlier. 44% of them were sentenced in 2007 to fine, 30% to imprisonment, 20% to independently imposed supplementary punishment and measures and 6% to community service. The majority of sentences of imprisonment were suspended, and 9,124 persons, 10% of all convicts were sentenced to executable imprisonment. 99% of the sentences were handed down on the basis of a public prosecution. The number of convictions on the basis of private prosecution fell by 215 to 776. It was unchanged that 7% of the convicts with definitive sentence were juveniles.

The number of persons imprisoned in law-enforcement institutions decreased continuously in the past years, and it was 14,300 in 2007, by 490 fewer than one year earlier. 72% of them were convicts, 27% were on remand and the rest was referred to compulsory treatment or confinement. There were no other people held in detention in 2007. 94% of all persons imprisoned were men, and the number of women was 919.
In 2007, about 30% of the 25–64 year-old population had G.C.S.E or vocational school certificate, 18% had higher educational qualification, while about every fifth of this age-group completed only a maximum of 8 grades of primary school. The number of students both in secondary and tertiary full-time education is still growing continuously, though at a decelerating rate.

This school-year 2.2 million pupils and students take part in full-time and adult education, this number is 47 thousand fewer than one year earlier and 80 thousand down on the year 2000.

In school-year 2007/2008, nearly 88% of the population concerned (aged 3–22) attend nursery school and full-time school education. The figure of 1 million 951 thousand is 17 thousand down on the year before.

Though the number of the 3–5 year-olds, and correspondingly the number of the nursery-school pupils, grew somewhat in the previous two years, it fell again in 2007. In school-year 2007/2008 324 thousand children attend nursery school, 3,700 fewer than in the previous school-year. 71% of the nearly 5,000 disabled children in nursery schools participate in the integrated form of education in accordance with the priorities of the educational policy. The number of primary-school students is also closely connected to the number of children in the given age-group. This school-year 809 thousand primary school students attend full-time education, almost 20 thousand fewer than in the previous school-year. More than 41% of students attend afternoon-school as well. The number of disabled children who either attend primary schools for disabled children or an integrated form of education decreased by 4 thousand compared to the year before, and it is 58 thousand in this school-year. The fall in the number of primary-school students entails the decrease in the number of those having completed the eighth grade as well. In 2007, 112 thousand students graduated from primary school, 6 thousand fewer than one year earlier, and nearly all of them continued their studies. About 4% of the age-group concerned, annually 4–5 thousand young
people are unable to complete studies in primary school till the age of 16. Their chances to find a job will be the worst; experience shows that most of them will be long-term unemployed. The number of students of primary-school age (at the 5–8 grades) in 6- and 8-grade grammar schools, established at the end of the 1980s, did not diminish: as in the former school-year, 27 thousand children enrolled.

The number of full-time students in secondary education grew by 2,400 compared to the previous school-year. 23% of the 575 thousand students attended vocational schools not leading to a G.C.S.E., 42% studied in vocational secondary school and 35% in grammar school. The shift lasting for several years towards secondary education leading to a G.C.S.E. stopped in the past 4–5 years, and the distribution of students in the different school-types became stable. The number of students in vocational schools grew by nearly 4 thousand on the preceding school-year, while it decreased slightly in grammar and vocational secondary schools leading to G.C.S.E. The distribution of boys and girls in secondary education is more and more balanced. Though the differences in the various school-types (in grammar schools there are still more girls and in vocational schools the share of boys is still higher) did not fully disappear, they are decreasing gradually. While in the early 1990s 53% of the boys attended vocational schools not leading to G.C.S.E., 72% of them enrolled to secondary schools in 2007. In case of girls, the attendance of vocational schools fell from one third to 18% in the same period, and the share of girls studying in grammar schools and vocational secondary schools rose by 7 and 8 percentage points, respectively. The number of those who passed G.C.S.E. successfully in 2007 was 77,500, hardly exceeding the figure one year before. The share of students graduated from grammar schools and from vocational secondary schools did not change significantly compared to the former years, i.e. around half of the students graduated from grammar schools and the other half from vocational secondary schools. Due to the longer vocational training, the number of students having passed school-leaving examination in vocational schools fell from 26 thousand to 19 thousand, while it did not change significantly in vocational secondary schools compared to the previous year, i.e. it remained 25 thousand.

The role of evening, correspondence and distance learning courses in primary education is relatively small, since almost all young people are involved in full-time education. In primary education, the number of students learning in evening and correspondence courses has been about 2 thousand for years. In secondary education this number fell sharply, by 7 thousand compared to the previous years; in this school-year the number of not full-time students is about 89 thousand.

The number of students in tertiary education fell from 416 thousand to 398 thousand during one year. Though the number of full-time students (243 thousand) is by 4 thousand more than in the previous academic year, in evening, correspondence and distance learning courses there was a fall of nearly 13%; 155 thousand students enrolled in this academic year, 23 thousand fewer than in the previous one. In 2007 68% of the candidates were admitted to universities and colleges, a share 4 percentage points higher than in 2006. In full-time tertiary education, 99 thousand students participate in undergraduate (BSc)
training, 128 thousand in university, college-level and undivided training, 10 thousand in higher vocational programmes and 5,600 in professional further training or PhD or DLA training. The most popular fields are invariably economy (22%), engineering (14%) and arts (13%). While the share of economic subjects in the first place is more and more increasing, that of the other two subjects is decreasing.

Parallel with the fall in the number of pupils in the past years, the number of nursery-school and school sites and that of teachers began to decrease as well. Compared to the previous school-year, the number of nursery schools fell from 4,524 to 4,386, that of primary schools from 3,591 to 3,418, while the number of secondary education sites decreased by 38 to 2,487. Similarly to the previous years, 71 universities and colleges are operated in tertiary education.

The number of nursery school teachers (30 thousand) did not change significantly, while that of primary school teachers diminished by more than 5 thousand, i.e. nearly 7%. Nevertheless, in primary schools, the number of students per teacher remained 10 on the average, while it is 11 in secondary schools and 13 in vocational schools. The number of lecturers in tertiary education has stagnated or decreased slightly since 2004.

In 2006, government expenditure on education, including accumulation expenditure, amounted to more than HUF 1,200 billion, 4% up on the previous year at current prices. The largest share, 37% was spent on primary education, while 21% on secondary, 18% on tertiary and 15% on nursery school education; the rest (9%) was spent on other educational expenses.

Research and development, innovation

Research and development activities started to develop – though at a modest rate so far – in Hungary in accordance with the Lisbon strategy in the middle of the decade. According to the objectives of the strategy the ratio of research and development expenditure to GDP should reach 3% in member states by 2010, and two thirds of this should be supported by enterprises. In 2006 the amount of R&D expenditure rose by 14.5%, at the same pace as in the previous year, equalling some HUF 238 billion, and its ratio to GDP reached 1%, as against 0.82% at the turn of the millennium and 0.95% in 2005. The expenditure of enterprises increased much more quickly than the average both in 2005 and 2006.
Member states of the EU-27 spent 1.84% of the gross domestic product on research and development on the average in 2006. The ratio of R&D expenditure to GDP differs considerably across member states: it was the lowest in Cyprus (0.42%), and the highest in Sweden (3.73%). Hungary, although ranked in the top among new member states with its indicator of 1%, lags substantially behind the EU-15: only Greece and Portugal had a lower value than that.

In 2006 the number of research and development units was 2,787, 271 or 11% more than in the previous year. There was a small, lower than 4% expansion among research institutes, and a 37% increase, higher than ever before among enterprises, whereas a slight fall was registered in the tertiary education sector. The former trend observed in the composition change of R&D units by fields of science continued, i.e. the share of engineering and technology increased further, and one in three R&D units already belonged to this category in 2006.

R&D activities were pursued either in full-time or part-time by 50,411 persons in 2006, which was 688 more than in 2005. The growth of staff size differed widely by sectors. While staff number was up by one quarter in case of enterprises, it decreased in the other two sectors; by 1% among research institutes and by 5% in tertiary education. The full-time equivalent (FTE) staff number augmented at a faster rate (12%) than the actual one. There were 32,786 scientists and engineers within the R&D personnel, exceeding by over 4% the figure registered one year before, and their share reached 65%. The number of R&D assistants and other manual and non-manual workers went on decreasing, though at a lower pace than in the previous year.

Of total staff 22,423 females were working in R&D units, 3% less than a year earlier, and their proportion fell as well from 47% to 45%. The proportion of females remained the lowest in R&D activities of enterprises. One third of scientists and engineers were females. The average age of scientists and engineers was 44.2 years, while it was lower in R&D units of enterprises, higher in tertiary education and corresponded to the average in case of research institutes.

Enterprise expenditure on R&D activities rose by 28% in 2006, at an even higher rate than in the previous year. The expansion was 11%, lower than the average, among R&D units in tertiary education, and even lower, 4% in case of research institutes, as a consequence of which both sectors lost weight. The overwhelming part of expenditure was made up by current expenditure; the share of capital expenditure was less than 20%. Capital expenditure went up by 30%, nearly twice as rapidly as total expenditure. This was the result of the extraordinary, 49% capital expenditure increase of enterprises, by far the highest as opposed to former years. 72% of R&D capital expenditure was realized in this sector. A 7% decline in tertiary education and an only 1% rise among research institutes was observed in this field. Total R&D current expenditure was increased by 14%. More specifically, growth was faster in the enterprise sector, around the average in tertiary education, and very slight in case of research institutes. A most significant part of current expenditure was represented by labour costs in all the three sectors in 2006, too.

Considering the financial sources of R&D activities, state budget had a dominant role in 2006 as well, despite the per-
receivable decrease of its weight: its share of nearly 50% in 2005 was down by 5 percentage points during one year. At the same time capital expenditure of enterprises increased considerably, by one quarter, and its proportion rose above 43%. In 2006 this latter sector spent HUF 103 billion on research and development, 21 billion forints more than in the previous year. The amount from international sources went up at an above-average pace, too, and came to HUF 27 billion. Though the share of non-profit organisations augmented substantially, even so it represented only 0.6% of total expenditure. Enterprises financed mainly capital expenditure, while the state budget played a more important role in funding current expenditure. Source structures of the sectors were also quite different from one another. Obviously, state sources were dominant in financing R&D expenditure of research institutes and tertiary education, while their share was 8% only in case of enterprises. The importance of international sources was in turn higher among economic organisations.

In 2006, the amounts devoted to applied research and experimental development increased dynamically, while – even if only slightly – less was spent on basic research. The proportion of expenditure on experimental development rose from 39% to 40%, that of expenditure on applied research from 33% to 36%, while a nearly 4 percentage-point decline was measured in case of basic research.

Expenditure also changed to varying degrees by different fields of science. The fastest, 26% rise was registered in the amount spent on research in the field of engineering and technology, already representing the biggest share, which compares with a usually lower than 10% rate of growth in the other fields of science. Thus the proportion of expenditure on engineering and technology was up from 50% in the previous year to 54%. Of this, the share of chemical engineering sciences was the largest.

Scientists and engineers published 4,337 Hungarian and 1,091 foreign-language books in 2006, which totalled 683 more than one year before. The number of published articles was equal to 32,559, which is 853 fewer than in 2005. The number of books per hundred scientists and engineers went up from 30 to 31, while that of articles declined from 210 to 186. The intensity of scientists’ and engineers’ publication activities was quite different sector by sector. While there were 65 books and book parts per hundred scientists and engineers in tertiary education, the same figure was 27 for research institutes and only 1 for R&D units of enterprises.

Culture

More than 13 thousand books were published in 2007, 16% more than in 2006, while the number of copies, following a 12% increase, exceeded 42.5 million. As in the former years, the largest proportion, 32% of the books published were technical, and their share grew by 2 percentage points compared to 2006, similarly to the literary works, which represented a 25% share last year. Though the proportion of textbooks fell by 4 percentage points in 2007, nearly every sixth book published could be considered educational material. As for the number of copies, textbooks and literary works had the leading role, though the share of the former diminished by 6 percentage points.
The total book turnover was nearly HUF 67 billion in 2007, exceeding by HUF 1.4 billion (2.1%) at current prices the turnover of 2006. According to the data of the Hungarian Publishers' and Booksellers' Association, the position of educational works in publishing strengthened significantly in 2007, and through an extension of nearly 9.6%, their turnover reached HUF 17.4 billion, thus becoming the strongest book publishing branch again after four years (reaching 26% of the total turnover). The market share of books for children and juveniles decreased to a larger extent than before, too. Last year a turnover of nearly HUF 6.6 billion, 9.8% of the total turnover was registered, while two years ago the turnover of the branch was HUF 7.7 billion representing 11.8% of the total turnover. In 2007, the share of import books, CD-s, CD-ROMs and of the more and more popular new media, audio books represented 7.3% each in the total turnover.

In 2006, the number of public (community) libraries was 2,574, one fifth lower than the year before. The number of library units (books, bound journals etc.) diminished by 2 million over the year and amounted to somewhat below 43 million, which was approximately one third of the total library stock. The always increasing number of users (nearly 1.5 million in 2006) registered in public libraries (every third registered user was 14 years old or younger) borrowed 29 million books or journals, nearly 1 million less than in 2005.

Due to the expansion of multiplex cinemas in Budapest and other towns in the past years and in 2007, the number of cinema performances grew continuously; last year there were 422 thousand projections, 50 thousand up on 2000 and 14 thousand more than in 2006. However, the number of cinema-goers has decreased by 3 million since the turn of the millennium and was...
even 1 million fewer than the 12 million attendances in 2006. As a consequence, while in 2000 the number of sold tickets per projection was 38 on the average, this figure was 29 in 2006 and only 26 last year. Receipts from tickets per cinema-goer were HUF 878 in 2007, 9% up on the year before and 63% (HUF 340) more than in 2000. The majority of tickets were sold invariably for American films. The share of cinema-goers watching Hungarian films increased continuously in the past years but it fell by 4 percentage points to 13% last year.

In 2007, the number of theatres was 56, the same as in the previous year; 22 of them were operated in the capital city. There were altogether 13,592 performances (nearly 1,400 down on 2006), for which slightly more than 4 million tickets were sold. Though the number of theatre attendances grew by nearly 106 thousand compared to the turn of the millennium, it decreased significantly, by nearly 260 thousand on 2006, mainly as a consequence of the fall in the number of performances.

The number of performances and audiences of the concerts organized by the National Philharmonia went up until 2003, and has fluctuated since then. 1,342 performances were held last year, which figure was 36 down on 2006 and 61 up on 2000, while the number of attendances was lower than the data in 2000 and in 2006 by 23 thousand and 30 thousand, respectively.

Museum institutions (museums, collections or exhibitions) can be found in almost every town and in over one tenth of villages. Last year 2,716 exhibitions were organized. Though their attendance of 11.4 million was significantly, by 1.5 million more than at the turn of the millennium, it fell by more than 200 thousand on 2006. (The data of 2006 were largely influenced by the exhibition organized in the Museum of Fine Arts in the first half of the year with the title „Five Centuries of Spanish Masterpieces”, which was among the world’s 10 most visited exhibitions in the topic of old masters in 2006).

Beside the radios MR1, MR2 and MR3 (formerly called Kossuth, Petőfi and Bartók Radios), a new public service radio, MR4 – Minority Radio was launched in 2007, which resulted in an increase of more than 28% in broadcasting time. Similarly to former years, the overwhelming majority of the nearly 34 thousand broadcasting hours was taken up by music programmes, which amounted to 40% of the total broadcasting time in 2007. The broadcasting time of music programmes increased by 3 thousand hours, though their rate remained unchanged. The broadcasting time of news and information programmes increased significantly: while they amounted to one fourth of the total broadcasting hours in
2006, reached one third last year. The share of literary and entertainment programmes also increased slightly, by 2 percentage points compared to 2006: they amounted to nearly 3,500 hours in 2007.

In 2007, the public television broadcasting time was nearly 400 hours (2%) down on 2006. The distribution of the 25,571 broadcasting hours changed slightly compared to the year before. As in the year before, the news and information programmes represented again the highest share in 2007. The broadcasting time of these programmes diminished by 1,300 hours, while their share by 4 percentage points. Thus, roughly every third broadcasting hour was taken up by news and information. Following an increase of 12%, the broadcasting time of literary and entertainment programmes exceeded 7,400 hours, which amounted to 29% of the total broadcasting time.

Cultural expenditure of the government exceeded HUF 183 billion in 2006. This amount was 7.8% more at current prices than the level of 2005. The majority, nearly 56% of the expenditure was spent on the maintenance of cultural institutes (libraries, arts and community centres, museums). Expenditure on arts activities diminished by HUF 1 billion, nearly 2 percentage points on the year before: the amount of the subsidy slightly exceeded HUF 43 billion. The amount and share of government expenditure on book production, music and newspaper publishing were much higher than in the former years: the expenditure of more than HUF 12 billion is 3.4 as high as the expenditure in 2005.
Economic processes

International economic environment

In 2007, the economic boom observed in the previous three years continued, world economic production expanded by 4.9%. Over the course of the year the integration of developing and emerging economies to world economic production continued, and the increase of performance (7.9%) of these regions remains essentially higher than that of developed states (2.7%). The other marked impact – in the opposite direction to the former – specific for 2007 was the real estate loan crisis starting from the United States, the multiplying effects of which caused a slowdown in the economically more developed areas of the world already in the second half of the year.

The economy of the United States expanded by 2.2% in 2007, which meant a further decrease of the growth rate similarly to the previous two years. The real estate crisis that broke out in August has led to the most severe financial shock in the country since the Great Depression, as liquidity narrowed to a degree never seen before, and real estate prices declined by up to 10%. However, the depreciation of the dollar stimulated exports, and the ratio of current account deficit to GDP (5.3%) was down by almost 1 percentage point in comparison with 2006.

Gross domestic product of Japan was up by 2.1% in 2007, at a 0.3 percentage point lower rate than a year earlier. In spite of the decrease of the growth rate, the economy of the country resisted relatively well the effects of the credit crisis multiplying in developed economies, business investment remained lively in the last quarter of the year, too, and export trends were favourable as well. In the exports of Japan a more and more dominant role is played by developing Asian economies, which represent a market for nearly half of its exports already, while the total share of the United States and the euro area decreased to one third.

Economy of China increased by 11.4%, while that of India by 9.2% in 2007. The growth in world production in the past half decade was based on the performance of developing and emerging economies, since the development of China contributed by some one quarter, while that of developing and emerging countries by two thirds to the growth. One consequence of the significant growth of the countries belonging to these groups is that the demand for certain raw materials of key importance, and especially crude oil, certain metals and cereals rose markedly, which implied a sharp rise of price levels. Calculating with dollar data at current prices, it was the price level of crude oil, metals and food that went up to the highest extent in 2005, 2006 and 2007, respectively, in the last seven years. The over 20% increase of food prices in 2007 was in connection with the growing production of bio-fuel, representing one and a half per cent of global fuel supply at present. The price rise occurring as a result was a very important factor of the acceleration of global inflation to 3.9%. Nonetheless, several developing states exporting these products benefited from the increase of raw material prices.
Economic growth in case of the European Union (EU-27) reached 2.9% in 2007, essentially the same rate as in the previous year. Although the economy of the European integration expanded more rapidly than that of the United States, the rate gap was substantially narrower than the gap in favour of the US recorded between 2003 and 2005. The strong domestic demand was stimulated by the lively investment activities and rising employment, while the appreciation of the euro and the deteriorating performance of the United States – still the most important export market – subtracted from growth. Of the big economies of the EU economic growth slowed down in Germany, France and Italy, the 1.5–2.5% paces remained lower than the expansion rate of not only the EU but also the euro-zone (2.6%). In contrast, economic growth (3.0%) of the United Kingdom accelerated somewhat despite the key role of the financial sector in the economy of the country, which sector is closely related to the United States. In the Central and Eastern European member states – similarly to the previous year – a considerably higher growth was registered than in the old member states, so the region continued to close up. In the Visegrád group of countries, representing the largest economic share, the GDP of both the Czech Republic and Poland was up by 6.5%, while that of Slovakia by 10.4%. The growth of Hungary – in line with the demand-reducing effect of the programme adjusting the government budget – slowed down significantly, the 1.3% rate was the lowest among EU member states.

The economic level of development of countries in the region compared to one another and the average of the European Union underwent slow changes in the last few years, as a result of modest or accelerating growth rates of individual countries. In international terms the level of development is indicated by GDP per capita measured in purchasing power parity. For 2007 the values estimated by Eurostat are available only. Based on them Slovenia remained the most developed economy in the region, its GDP per capita was 91% of the EU-27 average. This country was followed by the Czech Republic with 81%. The level of development of these two newly acceded member states was higher than that of the least developed old member state, Portugal. Hungary, similarly to 2006 (when it changed places with Estonia), was overtaken in 2007 as well, this time by Slovakia. The per capita GDP of Hungary, reaching 64% of the EU average, was ranked fifth in the Central and Eastern European region and twenty-second in the EU. Among Visegrád countries
Poland stood at the lowest level of development (55%), and Romania and Bulgaria were at the bottom of the rankings, with 40% and 38%, respectively.

**Macroeconomic processes in Hungary**

In the six years following the turn of the millennium, the economy of Hungary increased at an even annual rate of around 4%, which was several times as high as the growth observed in the more developed countries of the European Union, and among Visegrád countries at similar levels of development and with a similar history, Slovakia alone could outstrip the performance increase of Hungary. Government measures started in 2006 – aiming at reducing the unsustainable general government deficit, and narrowing first of all demand – led to the marked slowdown of the dynamics of growth. Gross domestic product (GDP) rose by 3.9% in 2006, and, at the same time as budget correction measures were implemented, at a slowing rate in 2007 quarter by quarter, and by 1.3% annually. The modest growth amid favourable external economic conditions was 1.6 percentage points lower than the average of the European Union (EU-27).

**The structure of economic growth**

— as a consequence of fiscal consolidation — was different in many respects from that observed in the past ten years. Whereas formerly the expansion of consumption, capital formation and exports all supported growth, from 2006, owing to the impact of reform efforts and budget adjustment, increase of exports tends to remain the only factor fuelling the economy.

**Figure 30: Growth of GDP and certain components of domestic use compared to 2000**

![Graph of GDP and domestic use components]

**Figure 31: Change of GDP, consumption and real earnings (compared to the same quarter of previous year)**

![Graph of GDP, consumption, and real earnings change]
Slowing economic development – from expenditure side – was mainly due to the real-wage-reducing effect of the budget adjustment. Consumption of households, the largest item on the expenditure side of GDP, was down by 0.3% in 2007 as opposed to the decelerating rises registered in the previous two years, while the actual final consumption of households, as a consequence of a marked fall of transfers received from the government, was 2.1% lower than in the previous year. Consumption of government, following stagnation in 2005, rose by 5.8% in 2006, and dropped by 3.2% in 2007 compared to this high base. Final consumption (the sum of these two items) contracted for the first time in the past seven years (by 2.2%).

Gross fixed capital formation, which plays a considerable role in economic development on both demand and supply side, and indirectly reflects the expectations of market players as well, was one of the main engines of economic growth until 2005. In 2006 its volume fell by 2.5%, followed by a 1% expansion in 2007. According to investment statistics the main reason for this was the strong expansion of developments of manufacturing corporations, offsetting at national level the decline in real terms of important branches and state-funded investments (e.g. motorway constructions). Total domestic use (consumption and capital formation) decreased by 0.3%, thus it was the second time since 1997 that the current price value of domestic use remained below that of gross domestic product. The favourable impacts of all these were shown by the improvement of the current account in addition to that of the external trade balance.

External trade in goods and services was one of the driving forces of economic growth already in 2005, while in 2006 and 2007, resulting from the decreasing domestic demand, growth – as regards the expenditure side of GDP – relied almost completely on this. The external trade balance of goods and services also reflected all this. Economic boom of the European Union, major external trade partner of Hungary, continued to provide a wide market for Hungarian exports, owing to which the volume of exports increased by 14% last year (by 12% in 2005 and 19% in 2006). Imports accelerated to a lesser extent, at a growth rate of 12% in 2007 (7% in 2005 and 15% in 2006), since the moderate government and household consumption and the essentially stagnating investments slowed down import demand. The export boom is invariably based on the production and export sales of manufacturing, and, more specifically, machinery branches. Favourable volume processes – in spite of the mainly unfavourable prices changes –
led to a significant improvement of total external trade balance in the last few years, and after a 1.1% deficit-to-GDP ratio in 2005 it reached surpluses of 0.5% and 2.3% in 2006 and 2007, respectively.

Terms of external trade in goods and services deteriorated in 2005 and 2006 primarily because of the price rises of energy sources, which reduced the volume of counter deliveries from abroad for the unit of goods or services produced in Hungary. Gross domestic income (GDI), the GDP indicator adjusted to changes in terms of trade, shows the GDP change expressed in the external purchasing power of the forint (along with a given structure of external trade). GDI growth differs considerably from GDP growth if the ratio of external trade to gross domestic product is high, or if the terms of trade change substantially in the given year, which was however not the case in 2007.

In countries where foreign capital plays a remarkable role, gross national income (GNI) is an important economic indicator, which can be derived from GDP by taking the primary income distribution crossing country frontiers into account. As opposed to GDP, GNI does not include owner income earned by foreign capital in Hungary and Hungarian incomes of foreign employees, but it includes incomes (wage or interest, dividend etc.) of Hungarian investors and employees earned abroad. Until 2003, the balance of employees’ incomes showed a modest surplus in Hungary, followed by a slight deficit, and a surplus again in 2006. However, the amount of this surplus is negligible compared to the negative balance of owner incomes accounting for 5-7% of GDP. All this indicates the role of foreign capital in the Hungarian economy, apparent not only in direct investments but significant also in portfolio investments and credit transactions. The income of foreign owners consists of two parts: the balance of interests and dividends paid and received, and reinvested earnings. The proportion of reinvested earnings in the income of foreign owners dropped substantially from 2004 onwards, and declined from 46% in 2003 to 19% in 2006.

Gross national income (GNI) was up by 3.8% in 2005 compared to the previous year, its rate of growth being somewhat lower than that of GDP. Of the two macroeconomic indicators the growth rate of GDP was 0.5 percentage point higher in 2006, too, i.e. GDP expanded by 3.9%, and GNI by 3.4%.

<table>
<thead>
<tr>
<th>Table 5: Gross national income (GNI)</th>
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<tbody>
<tr>
<td><strong>At current prices, billion HUF</strong></td>
</tr>
<tr>
<td>GDP</td>
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<tr>
<td>Balance of compensation of employees</td>
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<td>Balance of property income</td>
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<tr>
<td>of which: reinvested earnings</td>
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<tr>
<td>Balance of EU taxes and subsidies</td>
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<tr>
<td>Overall adjustment</td>
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<tr>
<td>GNI</td>
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<tr>
<td><strong>As a percentage</strong></td>
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<tr>
<td>Annual growth rate of GNI, (at constant prices)</td>
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<tr>
<td>Ratio of GNI to GDP</td>
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</tbody>
</table>
On the production side of gross domestic product, the manufacturing recovery relying on sales in external markets partly offset the slowdown in other branches. The value added of industry increased by 6.2% in 2007, even more dynamically than in the previous years, and within industry that of manufacturing rose by 6.8%. Out of the other two goods-producing branches a 12% decline was recorded in construction following stagnation in 2006, which was caused primarily by the slowing rate of public road network development works. The value added by agriculture, representing 4.2% of the production of gross value added in 2007, fell by 13%, at a rate even faster than in the previous two years. Among services branches the volume of value added by services typically financed by the state was down by 2.1%, of which it was the value added by health services that decreased considerably. The remaining branches saw a growth, at a usually lower pace than in the previous year. Of market services branches enhancing their performances the value added of transport, storage and communication branches rose the most, by 4.0%, while that of trade branches the least: by 1.5%.

In the ownership structure of the national economy the proportions established by the mid-nineties – with small fluctuations – have been characteristic of Hungary ever since. According to the available annual data of 2006 three quarters of gross value added were produced by the private sector, of which foreign ownership shared with 24%. Year 2006 data indicate a relatively important shift only on branch level compared to the previous years, in the national economy as a whole the shares of individual ownership sectors equal the averages of the previous five years.

In 2006, the weight of the community sector was 26%. Its share in the value added exceeded 40% in five branches, and its role was exclusive only in public administration and defence, compulsory social security. In electricity, gas and water supply the share of the community sector was 84%, the same as one year earlier. In education and health, where private capital has already emerged in the nineties, the weight of the community sector was essentially unchanged in the past few years (80 and around 67%, respectively).

The contribution of foreign-owned enterprises to gross value added rose from 22% in 2005 to 24%. The share of foreign ownership was dominant in two branches: 56% in manufacturing (its share rose further compared to the level one year before), and 47% in financial intermediation.

The domestic private sector was the biggest owner in eight of the 14 industries, and its weight equalled or exceeded three quarters in four of them. Its share of total gross value added (49%) declined slightly in comparison with 2005. The domestic private sector represented about 90% in agriculture and construction, and its share was also high in mining and quarrying, trade, hotels and restaurants, real estate, renting and business activities and other services industries.

2006 data on the regional distribution of gross domestic product show a further increase of the advantage of Central Hungary, and thus widening regional disparities. Though the differentiation observed for a longer period of time stopped in 2003–2004, it has gone on since then, and as a result of the above-average development of Central Hungary the difference between the economically most and least developed regions became higher than ever.

Classification by ownership sectors is made according to the principle of majority ownership.
before (2.6-fold) by 2006. Leaving the performance of the capital city out of consideration, the value of the per capita indicator is higher than the national average in Central and Western Transdanubia. The gap between the two regions representing the extreme values was invariably 1.6-fold.

<table>
<thead>
<tr>
<th>Table 6: GDP per capita, 2006</th>
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<tbody>
<tr>
<td>Region</td>
</tr>
<tr>
<td>Central Hungary</td>
</tr>
<tr>
<td>Central Transdanubia</td>
</tr>
<tr>
<td>Western Transdanubia</td>
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<tr>
<td>Southern Transdanubia</td>
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<tr>
<td>Northern Hungary</td>
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<tr>
<td>Northern Great Plain</td>
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<tr>
<td>Southern Great Plain</td>
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<tr>
<td>Total</td>
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</tbody>
</table>

The outstanding weight of Central Hungary is indicated by the production of 47% of total GDP here, while 28% of the population lives here. The contribution of Transdanubian regions to the total gross domestic product of Hungary was 26%, the same percentage as that represented by the three eastern regions. The weights of individual regions vary between narrow limits, Central Transdanubia and Western Transdanubia had the largest (10–10%), and Southern Transdanubia the smallest (6.5%).

**Investment**

The volume of **gross fixed capital formation** (approximately 90% of which is investment), following a continuous and dynamic growth until 2005 and a 2.5% decrease in 2006, rose by 1% in 2007. Gross fixed capital formation in the European Union, following a 6% rise in 2006 expanded at a similarly dynamic rate, by 5.5% last year. Among the great powers of the EU Germany had an important role in this, where after five years of decline and stagnation lasting until 2005, growth rates of 5-6% were observed in 2006 and 2007 as well. The volume of fixed capital formation was up in each member state, and to the highest extent in the Central and Eastern European countries (the expansion reached or exceeded 20% in Romania, Slovenia, Poland and Bulgaria). The ratio of

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**Figure 33: GDP and investments**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (2000=100)</th>
<th>Investment rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>100</td>
<td>18.0</td>
</tr>
<tr>
<td>2002</td>
<td>105</td>
<td>18.5</td>
</tr>
<tr>
<td>2003</td>
<td>110</td>
<td>19.0</td>
</tr>
<tr>
<td>2004</td>
<td>115</td>
<td>19.5</td>
</tr>
<tr>
<td>2005</td>
<td>120</td>
<td>20.0</td>
</tr>
<tr>
<td>2006</td>
<td>125</td>
<td>20.5</td>
</tr>
<tr>
<td>2007</td>
<td>130</td>
<td>21.0</td>
</tr>
</tbody>
</table>

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57
Gross fixed capital formation to GDP equalled an average of 21% in EU member states, and 19% in the United States. With its ratio of 21% Hungary is in the middle of the ranking of member states, preceding the majority of economically more developed countries, but last among Central and Eastern European countries.

In 2007, HUF 4.8 trillion were spent on investment in the national economy at current prices, broadly the same amount (0.3% more) at constant prices as a year before. The modest rise occurred compared to a low level, since the volume of investments was down by 1.2% in 2006.

The rate of investment – the ratio of investments to GDP – generally decreased in the past three years. It equalled 19% in 2007, 1 and 2 percentage points less than one year before and in 2000, respectively.

The volume of developments, practically stagnating at an annual level was the outcome of a fall of investments in the public sector (investments of the state) on the one hand, and the dynamic increase in investments of the corporate sector on the other hand. Three industries play a key role in investment structure by branches: manufacturing, transport, storage and communication, as well as real estate, renting and business activities, which make up about seven tenths of total investment expenditure. Investment dynamics of the three industries are formed by different factors. In transport, state-funded public road development investments (primarily motorway construction in the last few years) represent a relatively large weight, essentially influencing dynamics. Consequently, the change in investments is highly affected by government decisions. In contrast, manufacturing developments are determined by – often foreign-owned – enterprises in the private sector, therefore changes reflect primarily the situation assessment and expectations of the market, although the impact of government decisions (e.g. subsidies) may prevail here, too. The decisive part of investments in real estate, renting and business activities is dwelling construction, which partly reflects market impulses but is considerably influenced by economic policy measures (subsidies for dwelling construction) as well.

In 2007, among the three branches with the largest weight the volume of investments grew only in manufacturing (by 24%), primarily as a result of large volume developments in the manufacture of rubber products, transport equipment and radio, television and communication equipment. The increase took place as measured against a low base, drops of 5% and 1.9% were registered in 2006 and a year earlier respectively. Investments in transport, storage and communication – after expansions of 19% and 9.6% in 2005 and 2006, respectively – decreased by 2% in 2007, primarily due to the fall of motorway construction and road reconstruction. The real value of investments in real estate, renting and business activities, representing the second highest proportion of total investments, essentially reached – partly by means of a rise in dwelling construction – that observed in the previous year.

The approximately 7% growth of corporate investments was largely due to manufacturing developments. Of business branches having smaller or medium shares in investment expenditure, investments of hotels and restaurants rose alone, thus the dynamic increase lasting for several years continued in this industry. Among productive industries investments in agriculture and construction declined by 10–11%, like one year before, while developments in electricity, gas and water supply have already
fallen for four consecutive years, by 4.7% in 2007, and by 30% over four years. In the field of business services the setback was in general lower: the real value of investments dropped by 3.9% in trade, and by 6.5% in financial intermediation after the substantial expansion recorded in previous years. In public services branches (public administration, education, health) investments decreased in all industries after the volume increase in 2006. The volume of investments declined to the highest degree in public administration (by 31%), while contractions of 13% and 12% were observed in education and health, respectively, in real terms. Developments in the branch of other community, social and personal service activities lessened in the past three years. Parallelled by the sharp rise in the number of dwellings built, the distribution of investments by legal forms considerably changed at the beginning of the 2000s in favour of household investments (related to other economic activities) as opposed to corporate investments. During the remaining years the distribution did not change too significantly as a whole. Last year the weight of corporate developments was 69% following a rise by 4 percentage points, the share of investments financed by government authorities was 13%, lower than one year before, and the proportion of investments related to other economic activities was down to 18%.

Though the dynamics of construction and machinery investments were sharply different at the beginning of the decade, they moved closer to each other in the subsequent two years, and similar declines were measured in these two groups in 2006. Changes in 2007 took different directions again: construction investments lessened by 6.8%, while machinery investments rose by 11%. This was consistent mainly with the important augmentation of manufacturing investments, as well as the decrease of road and other construction investments. Of machinery the volume of imported machinery was up by 16%, while that of machinery made in Hungary by 6.3%, and they shared with 48–52%, nearly the same proportions as in 2006. Within total investments the share of construction developments was down from 58% in 2006 to 55%, at the same time as the proportion of machinery investments rose to nearly the same extent.

The accelerating increase of investment prices in 2006 slowed down again in 2007, and the rate of increase was comparable with that recorded in 2003–2005.
The investment price index was 102.7% in 2007 as against 105.4% in 2006. According to a tendency of several years, the driver of the price change was the price rise of construction investments, which was equal to 5.8% in 2007. Following stagnation in 2005 and a 2.6% rise in 2006, the price level of machinery investments diminished by 1.9% last year, resulting from a nearly 5% drop of import machinery prices and a slight augmentation of domestic machinery prices.

Foreign direct investments

At the end of 2006 – according to the most recent ‘World Investment Report’, a publication of the UN – the value of the foreign direct investment stock invested in the world amounted to about USD 12 trillion, 19% more than a year earlier. As in previous years, over seven tenths of the capital stock were in developed countries, of which the European Union accounted for almost two thirds. Of the foreign capital stock invested until the end of 2005 the most capital, amounting to about USD 6.1 trillion, was attracted by the services sector. More specifically, there were two major branches in this sector: financial services and business services with their foreign capital stock of USD 1.9 and 1.6 trillion, respectively. Manufacturing as a whole had a stock of USD 3.0 trillion, while the primary sector had USD 0.8 trillion in the mid-2000s.

In 2006, the value of global foreign direct investment flows exceeded USD 1.3 trillion, which – partly as a consequence of the depreciation of the dollar – was 38% higher than a year before, and approximated the record level in 2000.

More than two thirds of the capital flow in 2006 were realized through cross-border mergers and acquisitions, the share of green-field investments – despite the increase in their value – went on falling. In 2006 transnational corporations and their subsidiaries accounted for a tenth of global production, and one third of global exports. In the same year among the countries in the world the United States had the largest stock of investments of foreign origin (USD 1.8 trillion), followed by the United Kingdom in the rankings (USD 1.1 trillion). Quite significant total foreign capital amounts of nearly USD 0.8 trillion operated both in France and Hong Kong.

<table>
<thead>
<tr>
<th>Rankings</th>
<th>Investor country</th>
<th>Destination country</th>
<th>Billion USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>United Kingdom</td>
<td>United States</td>
<td>282</td>
</tr>
<tr>
<td>2.</td>
<td>Hong Kong, China</td>
<td>(mother-country)</td>
<td>242</td>
</tr>
<tr>
<td>3.</td>
<td>United States</td>
<td>United Kingdom</td>
<td>234</td>
</tr>
<tr>
<td>4.</td>
<td>Japan</td>
<td>United States</td>
<td>190</td>
</tr>
<tr>
<td>5.</td>
<td>Germany</td>
<td>United States</td>
<td>184</td>
</tr>
</tbody>
</table>

The stock of foreign capital operating in Hungary at the end of 2006 amounted to HUF 13.8 trillion (USD 81.8 billion), 17% more than a year earlier, if calculated using HUF data at current prices. With this value Hungary was regarded as the twenty-fifth largest foreign investment stock owner in the world. As in previous years, Germany had the largest capital stock – of HUF 3.7 trillion – in Hungary in 2006, too, and the Netherlands were in the second position, the stock of which country equalled almost half of Germany’s and 13%
of the total. Austria, the United Kingdom and France follow in the rankings with stocks of values of HUF 1.6, 0.8 and 0.6 trillion, respectively. The ten countries with the highest values of investments in Hungary possessed over three quarters of the total foreign capital stock at the end of 2006.

The largest proportion, 36% of foreign capital stock invested in Hungary operated in manufacturing. The manufacture of transport equipment and that of electrical and optical equipment – both included in manufacturing – represented 10% and 7%, respectively, of the total value of stock. Nonetheless, the capital stock operating in manufacturing hardly rose, by 1% only from 2005 to 2006, as opposed to trade and repair, the capital stock of which (HUF 2.2 trillion) increased nearly 1.6-fold over the same period. A considerable, 35% growth was recorded at current prices in real estate, renting and business activities as well, as a result of which the capital stock of this branch accounted for over a fifth already of the total. After a rise by 16%, the foreign capital stock operating in financial intermediation was HUF 1.4 trillion, accounting for some one tenth of the capital stock.

Net sales of enterprises with foreign direct investment in 2006 were up by over a quarter to HUF 33.1 trillion, while the gross value added that they produced rose by 17% to HUF 5.6 trillion. The number of employees in this group of enterprises – in spite of a drop in the number of enterprises – showed a growth (4%), and the resulting staff of 598 thousand employees was a historic record at the same time. One fifth of employees was employed by enterprises classified under trade and repair, whose number even increased by about 10 thousand persons compared to previous years. The most dynamic rise in employee numbers was measured in case of enterprises engaged in manufacture of transport equipment, where 27% more people worked than in the previous year, totalling almost 44 thousand persons. Within manufacturing, the most, 105 thousand people continued to be employed in the manufacture of electrical and optical equipment, and this staff size was essentially the same as one year before.

In 2006, the average gross monthly earnings of employees at enterprises with foreign direct investment exceeded HUF 241 thousand, about three fifths higher than the average of the national economy. Average gross earnings rose by nearly 8% from 2005 to 2006 both in the national economy as a whole and in case of enterprises with foreign direct investment, thus the wage advantage of the latter group remained essentially unchanged in comparison with the previous year.

External trade turnover of enterprises with foreign direct investment indicated a significant recovery in 2006: the HUF values of their exports and imports became 23% and 25% higher, respectively, as against 4% growth rates registered in the previous year. As a result of expansion in turnover, exports and imports amounted to HUF 10.9 and 11.9 trillion, respectively, in 2006, which represented 70% and 73% of total external trade turnover of Hungary. Almost two thirds of their imports came from European Union (EU-25) member states, within which the weight of old member states was dominant. As for their exports – similarly to total external trade turnover – the share of the European Union was even more substantial (77%).

Investments of enterprises with foreign direct investment came to HUF 1.1 trillion
in 2006, 12% less than one year before. The most severe falls occurred in case of transport, storage and communication, as well as the manufacture of chemicals, chemical products and man-made fibres.

Capital invested by Hungarian enterprises abroad exceeded HUF 2.2 trillion (USD 12.7 billion) at the end of 2006, which value was HUF 0.6 trillion higher than a year earlier, and was 2.2 times as high as at the end of 2004. The most important investment destination was Slovakia, where nearly three tenths of the Hungarian capital stock operated at the end of 2006. The Netherlands were ranked second and Croatia third with respective shares of 12% and 11%. The capital stock invested in the United Kingdom quintupled over a year, with which the country twelfth in the rankings in 2005 moved forward to position four. In addition to the above countries, significant proportions of the total capital stock of Hungary operated in Bulgaria, Romania, Serbia and Montenegro and Macedonia, representing almost 5% each. At the end of 2006 over two thirds of Hungary’s foreign capital stock operated in ex-socialist countries or their successor states. The largest part, 32% of the foreign capital stock of Hungary operated in manufacturing, while three tenths in the financial intermediation industry. Within manufacturing investments the manufacture of coke, refined petroleum products and nuclear fuel had a key role, where more than a quarter of total capital stock was invested. The capital stock invested in mining and quarrying as well as real estate, renting and business activities increased 2.2- and 5.1-fold, respectively, representing one tenth each of the value of total stock.

Balance of payments, foreign debt

In 2007, the current account deficit was EUR 5.1 billion, equal to 5.0% of the gross domestic product. The deficit was down by some EUR 400 million in 2007, to a lesser extent than in the previous two years. The current account deficit of the 27 member states of the European Union was EUR 72 billion in respect of extra-EU countries, which equalled 0.6% of GDP. The deficit of the EU also declined – by about EUR 10.5 billion – compared with 2006, which caused a 0.1-percentage-point decrease of the deficit-to-GDP ratio.

The balance of goods and services – as in the previous three years – improved in 2007, too, and has shown a surplus for the second consecutive year already. This was primarily due to the change in the balance of merchandise trade, the import surplus of
which was lower and lower until 2006, and in 2007 the value of exports has already exceeded that of imports by EUR 1.4 billion. The total balance of merchandise trade improved by 4.3 billion euros between 2003 and 2007, and more specifically in 2007 the balance improved to a higher degree (EUR 2.4 billion) than in the previous three years altogether.

The balance of services had a surplus of 1.1 billion euros, which was 145 million less than a year before but exceeded somewhat the level of year 2005. In the fall of the surplus in 2007 a key role was played by tourism, the balance of which – dominantly influenced by expenditure expanding dynamically compared to the low base – deteriorated by EUR 0.4 billion, though still indicated a surplus of 1.3 billion.

In the change of the balance of incomes and current transfers a key role was played by the change of incomes. In the past few years the net outflow of incomes rose year by year, amounting to 5.8, 6.2 and 7.9 billion euros in 2005, 2006 and 2007, respectively. Within that, the net outflow of non-debt-related, dividend, distributed and reinvested incomes came to 5.9 billion euros in 2007, 1.3 and 1.8 billion more than in the previous year and in 2005, respectively. Over nine tenths – a slightly declining proportion – of the non-debt-related net outflow of incomes was represented by outflow in the frame of direct capital investments, while the remainder was related to portfolio investments. The outflow of debt-related, interest-like net incomes was EUR 2.2 billion, 0.5 billion more than in 2006. The amount of the surplus (116 million euros) deriving from the compensation of employees employed abroad for up to a year was essentially the same as one year earlier, though went on approximating only the values registered in years prior to EU accession. The surplus of current transfers equalled EUR 315 million in 2007. Although this value was 62 million euros less than one year before, rose by 137 million as compared to 2005. The balance of the general government sector, containing Hungary’s contribution to EU budget as current transfers, changed in the same direction in the last few years as the item as a whole, while in case of other sectors the balance improved permanently, its surplus already reached EUR 1 billion in 2007.

The balance of the capital account – except for 2006 – has improved since 2004, and the surplus of revenue has already exceeded 1 billion euros in 2007. This was highly influenced by the balance calculated for the general government sector, in which the resources coming from the European Union and related to developments and investments are accounted for. The balance calculated for the general government sector closed with a surplus of almost 1.3 billion euros in 2007, which was 2.1 times higher than the surplus recorded in the previous year. The need for external finance (calculated "top-down"), i.e. the joint balance of the capital account and the current account, was 4.0 billion euros in 2007, 0.7 billion less than in the previous year.

The inflow of non-debt generating resources amounted to 3.3 and 3.5 billion euros in 2004 and 2005, respectively. In contrast, a net outflow of EUR 0.5 billion was measured in 2006, which rose to 3.9 billion in 2007. The most important factor of the deterioration of the balance in 2007 was the change of portfolio investments representing ownership rights, the balance of which reduced non-debt-generating resources by 5.4 billion euros, a 4.7 billion euro higher amount than in the previous
year. The balance of foreign direct capital flows in Hungary, represented by shares (including reinvested earnings), in turn grew 1.5-fold to 4.2 billion euros compared to the previous year. Such capital investments by Hungarians abroad amounted to EUR 2.7 billion, comparable with the amount registered in 2006.

Gross foreign debt of Hungary – including other capital accounted for within direct capital investments – rose by around 20% in each of the last few years. Growth recorded in the past two years came to EUR 31.6 billion, as a result of which the debt stock was EUR 99.6 billion at the end of 2007, nearly the same amount as the annual GDP.

Of the gross foreign debt stock the private sector represented a share of almost two thirds, while the general government and the National Bank of Hungary had a share of more than a third at the end of 2007. Since over three quarters of the debt stock increment generated in the last two years were recorded in the private sector, its share was substantially – 5 percentage points – higher than at the end of 2005. The value of assets amounted to 52.6 billion euros in 2007, 15.0 billion more than two years earlier. Within the two-year period, in 2006 – similarly to the preceding year – the increase was of more than 20%, while of 16% in 2007. The lower than earlier growth of assets was mainly due to the developments of international reserves – amounting to over three tenths of the asset stock at the end of last year –, which was equal to EUR 16.4 billion at the end of 2007, the same value as one year before. Net foreign debt stock, the difference between gross foreign debt stock and asset stock, was 47.0 billion euros at the end of 2007, 47% of GDP. Net debt stock was up to the same degree in the past two years, by nearly a quarter annually, and by 55% over two years, of which the debt stock of the private sector became one and a half times higher, while that of the general government and the National Bank of Hungary grew by over 60%. At the end of 2007 the shares of the private sector on the one hand and the general government and the National Bank of Hungary on the other hand from the net – similarly to the gross – foreign debt stock were essentially two thirds and one third, respectively.

The non-debt-type liability of the national economy came to EUR 53.8 billion at the end of 2007, equal to the difference between the foreign direct investment of 69.5 billion euros in Hungary and the investment of 15.7 billion euros by Hungarians abroad. One year earlier the net stock of non-debt-type liabilities was 3.5 billion euros higher, of the value of EUR 57.3 bil-
lion. **Total** – debt-type and non-debt-type – foreign liabilities represented 169.1 billion, assets 68.3 billion and net foreign liabilities 100.8 billion euros at the end of 2007. The value of total foreign liabilities at the end of 2007 equalled the GDP in the same year. One year before total foreign liabilities were 6% higher, while at the end of 2005 they were 9% lower than gross domestic product in the respective years.

**External trade**

The balance of external trade and its improvement played a key role in processes of the national economy in the past few years, and especially in 2007. Whereas net export position continued to characterise external trade in services, the amount of the surplus there was somewhat lower than in the previous year. The determining factor of balance improvement was the significant decrease of the merchandise trade deficit.

It was the fourth consecutive year in 2007 that merchandise trade balance improved. The deficit amounted to 308 million euros, a small proportion of the 2.4 billion in 2006. This also implies that over only one year the deficit fell by a larger amount (by 2.1 billion euros) than in the previous three years altogether (by 1.8 billion euros). As for the relative deficit, the improvement was even more considerable. In 2003 the amount of the deficit represented 10.9% of exports, which ratio was down to 4% until 2006 and 0.4% in 2007. The deterioration of terms of trade specific for former years stopped, thus it did not reduce the balance-improving effect of volume processes, which played a key role in the marked decline in 2007.

The improvement of the balance was paralleled by the dynamic increase in merchandise trade over the whole period. Though the pace of growth in 2007 did not reach that recorded for the previous year, in exports it has been two-digit and higher than that of imports for four consecutive years already.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
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<tbody>
<tr>
<td>2003</td>
<td>9.1</td>
<td>10.1</td>
</tr>
<tr>
<td>2004</td>
<td>18.4</td>
<td>15.2</td>
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<tr>
<td>2005</td>
<td>11.5</td>
<td>6.1</td>
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<tr>
<td>2006</td>
<td>18.0</td>
<td>14.4</td>
</tr>
<tr>
<td>2007</td>
<td>15.6</td>
<td>11.4</td>
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</tbody>
</table>
According to a report published by the World Trade Organisation (WTO) in April the growth of world trade slowed down in 2007. The volume of merchandise trade, having increased by 6.5% in 2005 and by 8.5% in 2006, was 5.5% higher in 2007 than in the previous year, the latter being similar to the average rate of growth in the period between 1997 and 2007. Export dynamics of the Asian region, and particularly China remained outstanding. The United States reached a faster growth rate than the world average, while Europe expanded its exports at a considerably lower rate, by 3.5%, of which the indicator for the European Union (EU-27) was 3%. The growth rate of imports was significantly lower than that of exports in the United States and Asia, was equivalent to that in Europe and the European Union, and was substantially higher than that in other, typically large petroleum-exporting areas of the world.

According to Eurostat data total – including both intra-EU and extra-EU trade – exports and imports of the 27 member states of the European Union both represented 6% higher values in euro terms in 2007 than a year earlier. In comparison with the dynamics of the previous two years, this was a slowdown on both sides of trade, which may be influenced by the slowdown of the price rise, too. There was no significant difference between the growth rates of intra-EU trade and trade with third countries. Turnover went up by some 6% in the former group of countries, while exports – their value also expressed in euro – grew by almost 7% and imports by over 5% in the latter. On the average, intra-EU trade accounted for 68% of exports and 64% of imports of member states in 2007, which rates were similar in the previous two years as well. The balance of extra-EU trade shows a deficit of 185 billion euros, 7 billion less than in 2006 but 58 billion more than two years before.

79% of Hungary’s exports were directed to countries of the European Union in 2007, of which the old member states (EU-15) represented 59% and new member states (having acceded in 2004 and 2007) 20%. The share of the European Union in imports was 70%, of which old member states accounted for 56%, and new member states for 14%. Exports and imports within the European Union saw growth rates of 15% and 9%, respectively, in 2007 as compared to one year before. Exports to new member states expanded particularly markedly, by 27%, within which outstandingly again in the groups of machinery and food, where exports were over 1.3 and 1.5 times as high as a year before, respectively. Although the increment of exports to old member states was lower, it was significant, too, 12%; and among machinery and transport equipment it was also more rapid than the average. Imports also coming from new member states grew to a higher degree – by 12% – than those coming from old member states, from where the volume was up by 8%. Therefore, the dynamics of exports higher than those of imports characterised both groups of countries, and this resulted in the improvement of the balance, or more specifically the growth of the surplus. Regarding EU trade as a whole, the surplus came to 6.1 billion euros in 2007 as opposed to 3.5 billion in 2006, in which the proportions of the groups of old and new member states were essentially unchanged in the two years, equivalent to around 35 and 65%, respectively.

In 2007, exports to almost each new member state of the European Union were higher than imports coming from there (with the exception of Malta, representing a relatively low turnover). The highest
amounts of surpluses were recorded in trade with Romania and Slovakia, while the growth of the surplus was highest in trade with Romania. In addition to the latter two countries Poland and the Czech Republic belonged to the most important partners within this country-group. (88% of trade with the new member states was represented by these four countries.)

In the group of countries outside the European Union the volumes of exports and imports were up by nearly the same rates, namely by 18% and 19%, respectively, in 2007. The primary factor of the increase was the some 1.3-fold trade in machinery and transport equipment in both directions of the turnover. The largest markets of machinery exports outside the EU were in European countries, while machinery imports come primarily from Asian countries; the growth in 2007 was basically realized in these two groups of countries, too. The import volume of the other large item, energy, approximated only that observed one year earlier, and it mainly affected the group of European countries. Total exports to and imports from countries outside the EU expanded above all in trade with European countries and Asian countries, respectively, and the (positive or negative) sign and the change of their balance also reflected this. The huge deficit of trade with Asian countries, persisting for a few years, rose further, its amount in 2007 came to 8.5 billion euros, exceeding by 1.9 billion that measured one year before. However, in the group of European countries a surplus of 480 million euros was registered, which showed an improvement of 1.4 billion compared with a deficit in 2006. Taking into consideration the approximately 1.6 billion euro surplus of trade with countries of the other continents both in 2006 and 2007, regarding the whole of the group of countries outside the European Union the balance indicated a deficit of 6.4 billion euros, which was 550 million more than a year before.

Among the European countries outside the EU the highest surpluses were measured in trade with Croatia, Serbia, Turkey and Ukraine. However, the main factor of balance improvement was the considerable fall of the (traditionally and persistently high) deficit in trade with Russia. In trade with the largest Asian partner countries, similarly to former years again, exports made up only a small proportion of imports in 2007. The amount of the resulting deficit was outstanding in trade with China, where it came to 3 billion euros, but was of the order of a billion euros in trade with Japan, Taiwan, the Republic of Korea and Hong Kong as well.

Exports of machinery and transport equipment, in the dominant groups of countries as well as altogether, was an engine of growth in 2007 and over a longer period, too. Their volume increased by 13%, 22% and 19% in the last three years (in 2005–2007), respectively. The respective

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**Table 9: Largest external trade partners of Hungary in the group of new EU member states**

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<tr>
<td>New member states, total</td>
<td>9,632</td>
<td>13,505</td>
<td>3,873</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>2,714</td>
<td>2,836</td>
<td>121</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2,136</td>
<td>3,181</td>
<td>1,045</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2,392</td>
<td>2,574</td>
<td>182</td>
</tr>
<tr>
<td>Romania</td>
<td>1,521</td>
<td>3,087</td>
<td>1,566</td>
</tr>
</tbody>
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HUNGARY, 2007
growth rates of machinery imports, a substantial basis for exports, 6%, 20% and 16% were also considerable, but lower than those of machinery exports. Machinery and transport equipment represented over six tenths of total exports and more than half of imports. The value of their exports was persistently and increasingly higher than that of their imports, thus they played a key role in the balance improvement as well.

Among the dominant groups of machinery trade in road vehicles indicated the most marked upturn over the three years. In 2007 exports of 7.9 billion euros and imports of 6.4 billion euros were realized in this group of products, each accounting for some 18% of total machinery exports and imports. Within exports passenger cars worth 4.4 billion euros were dispatched, while within imports the value of motor vehicle parts amounted to 2.2 billion euros. The largest partner was Germany in case of both groups of products, where over a third of passenger car exports were sent, and from where some half of motor vehicle part imports were dispatched. Telecommunications products, the biggest group of machinery exports grew significantly and at an accelerating rate. This reached exports of 12.4 billion euros in 2007, nearly three tenths of total machinery exports. The respective imports also rose substantially, to 7 billion euros, with a share of some two tenths in total machinery imports. The most important export item in this product group was mobile phones, worth 6 billion euros, the largest export markets of which were Russia and Germany. In imports finished and unassembled mobile phones – serving export production as well – represented a value of 1.8 billion euros.

The turnover of manufactured goods, the second largest main commodity group, representing almost three tenths of exports and over three tenths of imports was also an important factor of external trade expansion. The volume of exports was 10%, 16% an 8% higher in 2005, 2006 and 2007, respectively, than in the previous year. Imports rose relatively slowly, by 2% in 2005, which was, however, followed by considerable recoveries, increases of 12% in 2006 and 9% in 2007. Of the quite wide range of products the groups of medical and pharmaceutical products as well as professional, scientific and controlling instruments and apparatus are worth being highlighted, the exports of which expanded to an outstanding degree in all the three years, and their shares of the respective commodity groups were around 10% each in 2007. Imports of medical and pharma-
ceutical products rose at a lower rate than exports but considerably, too. It deserves attention that while the imports of this group of products were higher than exports in 2005–2006, exports have already exceeded imports in 2007.

The growth rate of exports of food, beverages and tobacco products accelerated, in turn that of imports slowed down, indicating though even so a substantial augmentation over the last three years. Exports recovered particularly in 2007, with volume increases of 7% and 9% in 2005 and 2006, respectively, followed by a 16% rise in 2007. This latter fact implied as well that contrary to the trend of the previous years the dynamics of exports were higher than those of imports, which expanded by 16%, 13% and 12% over the same years, respectively. Nonetheless it is to be noted that all this had a relatively moderate impact on total turnover, since this group accounted for a relatively low share, 6% of exports and 4% of imports in 2007.

Dynamic increases were recorded in several product groups both of agricultural exports and imports. However, it is the exports of cereals and cereal preparations that can be considered as the determining factor of the export tendency. Their value expressed in euro rose significantly in 2005 and 2006, too, by about a quarter in both years, while it expanded 1.9-fold in 2007 compared to the previous year. In addition to the price rise of cereals this growth was largely due to the exports of almost the total intervention stock purchased by the EU before 2007.

The volume of energy imports, having risen substantially, by 18% in 2005, and having stood at around this level (its growth was lower than 1%) in 2006, lessened by slightly less than 2% in 2007. The expansion in 2005 was determined by the sudden rise in crude oil imports. As simultaneously the price level grew essentially higher as well, the value of imports increased at a higher rate than the volume, and regarding the commodity group as a whole, was equivalent – in euro terms – to over 1.5 times that registered in the previous year. In 2006 – due to the price rise again – the value of energy imports was up by a further quarter, and compared with the resulting high level a small, 2% decrease followed in 2007. The latter was primarily influenced by the volume and price level decline measured in the group of natural and manufactured gas. Exports of fuels and electric energy fluctuated considerably over the three years: the volume increase of 22% in 2005 was followed by a 7% fall in 2006 and again a high, 28%
growth in 2007. Although the largest proportion of exports was represented by petroleum products, a strongly rising trend of electric energy exports can be regarded as the primary factor of the upturn in 2007. Electric energy accounted for over a quarter of energy exports in 2007, as opposed to one tenth two years before. However, the group of fuels and electric energy was of small significance within total exports, its proportion was 3% in 2007. Energy imports in turn had a substantially higher value and share, representing about one tenth of total imports in 2007.

In the past few years there was an expansion in external trade in crude materials, the smallest main commodity group, representing hardly 2% of each side of the turnover. After a decline of 1% in 2005, the volume of exports grew by 2% in 2006 and by a further 3% in 2007. The dynamics of imports remained higher than that of exports all over the period, its stagnation in 2005 was followed by 5% and 6% growth rates.

The forint price level of external trade changed to different extents and in different directions between 2005 and 2007. In exports the 0.8% decrease in 2005 was followed by a 6.4% rise in 2006, which turned into a drop of 4.5% in 2007. The forint price level of imports rose in 2005 and 2006 as well, by 1.4% and 7.9%, respectively, and fell only in 2007, by 4.4%. Exchange rate developments were the key factor of this trend all over the period: the appreciation of the forint in 2005 (some 1.5% against the dominant foreign exchanges), its depreciation in 2006, and appreciation again in 2007 (both by and large 6%). Taking into account the change of the exchange rate, a slowly rising trend of the foreign exchange price level was observed.

The gap between the change of export and import prices caused a deterioration of terms of trade in 2005 and 2006, too, by a considerable 2.2% and a further 1.4%, respectively. Processes in 2007, namely the practically identical price changes on the two sides of turnover stopped the deterioration of terms of trade.

The unit value indices released by Eurostat for the entire European Union (EU-27) showed similar price rises in 2005 and 2006, equivalent to 8–9% in imports and around 3.5% in exports. This led to significant, 4–5% deteriorations of terms of trade in both years. Based on monthly unit value indices in 2007 import and export price levels are estimated to have risen at a substantially lower rate, by some 1–2% annually, as a result of which terms of trade are estimated to have improved by around 1%.

External trade in services, accounting for over a sixth of merchandise exports and nearly a sixth of merchandise imports, increased dynamically in 2007. Value of exports and imports of services expressed in euro was 16% and 19% higher, respectively, than in the previous year, which means a significant acceleration compared to the 1–2% growth rates in 2006. The amount of services exports – as opposed to merchandise trade – exceeded that of imports year by year. The balance showed a surplus of 1,324 million euros in 2007, somewhat (42 million) less than a year earlier.

Similar proportions, approximately 65% of exports and imports of services were realized in the European Union, of which old and new member states accounted for some 55% and 10%, respectively. In trade with countries outside the EU the group of European countries had the highest share in Hungary’s export turnover, followed by Asian and American countries, representing 13%, 10% and 9% of total exports, respectively. The structure of extra-EU imports by
groups of countries differed substantially from that of exports, since American countries were at the top of the rankings here with a share of 17%, while the proportions of European countries outside the EU and Asian countries equalled 10% and 6%, respectively. In trade with the European Union the value of exports and imports was considerably up, by 16% and 17% in euro terms, respectively, compared to 2006. Of the groups of countries outside the EU the more than 20% increases of exports to and imports from Asia and imports from America are worth being highlighted.

Among the groups of services half of exports in 2007 were accounted for by business services, almost three tenths by tourism, and two tenths by transport services, and the value of air and road transport was the most significant of the latter ones, representing together almost 15% of total exports. The value of exports rose to the highest extent, at a pace considerably higher than the average, among business services. Within that, the dynamics of royalties and licence fees, financial, construction and related engineering services, research and development services, and services between affiliated enterprises n.i.e. were particularly high. Exports of transport services also grew slightly faster than the average, whereas those of tourism services hardly exceeded the value recorded in 2006. In imports, business services represented some six tenths, a proportion even higher than in exports, while tourism and transport services accounted for two tenths and less than two tenths, respectively. The increase in the total value of business services approximated only the average, but more specifically that of construction and related engineering services, research and development services, financial and communication services as well as royalties and licence fees was up at a significantly higher rate. The value of tourism services rose the most, while that of transport services increased to a lower extent but also considerably.

**General government and its subsystems**

The general government balance – in conformity with EU uniform accrual rules (ESA ’95), also reflected by the Maastricht criteria – showed a deficit of 5.5% of the GDP in 2007. This deficit lessened significantly, by 3.7 percentage points, on the outstandingly high deficit of 2006 and was lower than in the previous five years. Despite this, among member states this indicator was still the highest in Hungary. In this same year, the EU had an average deficit of 0.9%, which has been the best result since the 0.6% surplus measured in 2000. Among member states 16 showed deficits, and 11 had surpluses in year 2007, with Finland showing the highest (5.3%) surplus.

On an accrual basis, the EU also had a decreasing, 58.7% high, debt-to-GDP ratio, which, as the first year below the threshold value of 60%, has been the best rate for the past seven years. **Gross debt of general government in Hungary**, expressed as a proportion of GDP, has kept rising since 2002, from these recent years to the highest extent, by 4 percentage points, in 2006. In 2007, the indicator grew further by only 0.4% and amounted to 66%. Out of the Member States of the European Union, 8 exceeded the threshold value of 60% set by the Stability and Growth Pact for the debt-to-GDP ratio.

General government deficit more than doubled on cash-flow basis from 2005 to

* Source of data is the Ministry of Finance, the National Bank of Hungary and HCSO-calculations.
2006 and reached HUF 2.2 trillion. General government deficit, excluding local governments, amounted to HUF 1,292 billion in 2007, 745 billion less than in the preceding year.

On cash-flow basis, central government had a revenue growth of 8% in 2007 at current prices, and its revenues amounted to HUF 7.1 trillion. The largest part, 41% of revenues in 2007 was constituted again by consumption taxes, which had a value increase of 8% over a year. Among these tax types sources from value added taxes approximated HUF 2 trillion, exceeding the prior year by 8%. Revenues from excise duties also grew by 8% and amounted to around HUF 820 billion. In 2007, revenue growth from value added taxes accelerated, while those from excise duties decelerated significantly compared to the rates of the previous year. Payments by households grew by 17%, which was significantly faster than in prior years. Therefore their share was the highest for the previous four years and exceeded one fifth. Similarly to prior years personal income tax payments had a share of nine tenths in payments by households in 2007; fee and duty revenues had an increase of 7% and amounted to HUF 119 billion. A new tax type of 2007, the special tax levied on natural persons, generated central government revenues of HUF 21 billion.

Central government institutions and chapter-administered appropriations had revenues of HUF 1.3 trillion (18% of total revenues), while payments by economic organizations came to about HUF 1.1 trillion (16% in revenues).

Central government had expenditures of nearly HUF 8.5 trillion, which were slightly below the prior year but it must be taken into account that the budget was burdened by a significant amount of debt assumption and debt relief in 2006. Excluding these items increasing the base year value when comparing the two years, the expenditure side shows an increase of 5% for 2007.

Half of expenditures, HUF 4.2 trillion was the money use of central government institutions and chapter-administered estimates. In 2007, subsidies to subsystems of the general government declined by 6%, and the overall amount equalled nearly HUF 1.7 trillion. This decrease was compared to a high base, since from 2005 to 2006 an increase of HUF 450 billion was generated under this item. In addition to extra-budgetary funds representing a small weight in 2007 as well, a decrease was recorded in subsidies to the other two subsystems, the larger one of which was observed in case of social security funds. Debt service expenditure exceeded HUF 1 trillion for the first time in 2007, an increase of 2.3% occurred on the prior year. Besides a slight increase of revenues, net debt service burden (HUF 910 billion) increased by one and a half percent on the prior year. Family benefits and social transfers paid amounted to HUF 686 billion in 2007, which was 6% more than in the previous year. This growth occurred compared to a high base, since these payments grew by 31% in 2006. From these items family benefits had an above-average increase in 2007 again, as a result of which they approximated a share of 75%. Housing allowances, following a decrease of 4% in 2006, had an increase of 2% in 2007 and amounted to HUF 228 billion. Hungarian contribution to the EU-budget grew at a similar rate, and fluctuated between HUF 185 and 190 billion in the complete years of our EU-membership.
Central government had a gross debt stock of HUF 15.6 trillion at year-end 2007, 6.0% more than a year earlier. More than seven tenths of the debt stock were in HUF, and the remaining part in foreign exchange. The HUF debt stock was represented nearly solely by government securities, however, in case of foreign exchange debts loans played a considerable role with a share of nearly one fifth.

At year-end 2007, government securities issued by the Hungarian state had a stock value of HUF 11.7 trillion, 13% more than a year before. Within this, securities with maximum two years of maturity had a stock decrease, while that of longer-maturity securities rose significantly. At the end of 2007 three fourths of the security stock issued funded the central government.

In 2005, owing to steady increases before 2005, social security funds had a deficit on cash-flow basis of nearly HUF 470 billion, which equalled 2.1% of GDP. The deficit lessened to HUF 131 billion, 0.6% of GDP in 2006, while the balance on cash-flow basis as well as the balance consisting only of the difference between own revenues and expenditures showed surpluses (HUF 35 and 28 billion, respectively) in 2007. The revenue surplus was completely generated in the Health Insurance Fund, since the Pension Insurance Fund closed the year of 2007 with revenues equaling expenditures in line with statutory requirements. In 2007, social security funds had revenues of HUF 4.3 trillion, 18% more than in the previous year. (Over this year an amount of HUF 288 billion for covering pension expenditures was taken over by the Pension Insurance Fund from the Health Insurance Fund. This stimulated revenues and expenditures of the subsystem, as well as growth rates in 2007). Though this growth rate was 3% lower than in 2006, it significantly exceeded those of the prior years. In this subsystem, charges and contributions had a share of 72% in revenues of 2007, the value of which was 17% more than a year earlier. At the same time the sum of guarantees and contributions coming from the central government – after doubling in the previous year – declined by 13% in 2007, and amounted to less than HUF 800 billion.

In 2007, expenditures of social security funds grew by 13%, which was the highest growth rate in recent years. The largest part, about three fifths, of this expenditure amounting to nearly HUF 4.3 trillion was represented by pensions, their amount reflecting an increase of 11% on the prior year. The amount of provisions in kind, at current prices, declined by over 6% and totalled HUF 1.1 trillion. Expenditures on pharmaceutical support, down from HUF 389 billion to HUF 324 billion, were the most important factor of this decrease. HUF 217 billion were spent on provisions in cash, 4% more than in 2006.

In 2003 and the following year, the deficit of local governments on cash-flow basis amounted to some tens of billions of forints, accounting for 0.1-0.2% of GDP. In 2005 and 2006 larger deficit growths followed, so the deficit-to-GDP ratio first rose to 0.4%, then to 0.7%. In 2007, the deficit of the subsystem was supposed to amount to about two thirds of the prior year value, when a deficit of HUF 157 billion was generated.

Extra-budgetary funds had a surplus of HUF 63 billion at the end of 2007. This amount was 13 billion forints higher than in the previous year, and indicated a continuously improving trend.
Net financial assets, the difference between assets and liabilities of the general government, showed a deficit of HUF 13.5 trillion on an accrual basis at year-end 2007. Among subsystems, in case of the central government the value of liabilities exceeded the value of financial assets by HUF 14.0 trillion, which was 10% more than a year before. Decreasing net financial assets were basically paralleled by increasing liabilities, the stock value of which exceeded HUF 17.4 trillion at the end of December. Notwithstanding, in 2007, the central government had a significantly decelerating liability growth compared to previous years, since the increases by HUF 1.5 trillion and HUF 1.8 trillion in 2005 and 2006, respectively, were followed by a rise of 1.1 trillion last year.

At the end of 2004 and 2005, net financial assets of social security funds had a deficit of around HUF 200 billion. This deficit turned into a surplus of HUF 175 billion at year-end 2006, which grew to HUF 341 billion in 2007.

At the end of 2007, local governments had net financial assets of HUF 229 billion, HUF 78 billion less than a year earlier. Otherwise the net financial assets of this subsystem have decreased for more than half a decade, which is basically due to significant, nearly half-a-trillion forint increases in liabilities over three years.

Some aspects of taxation

According to data published by Eurostat, the level of taxation in the EU-27 accounted for 40% of GDP in 2006. This proportion was significantly higher in the European Union than in the United States or Japan, and even rose slightly in the last few years. In 2006 the highest tax burdens among member states were observed in Denmark and Sweden (49%), while the lowest in Romania and Slovakia (29%). The ratio of taxes to gross domestic product was generally higher in old member states and lower in the newly acceded ones. For Hungary 37% was recorded in 2006, which was the twelfth highest value in total EU rankings, and – following Slovenia (39%) – the second highest value in the order of newly acceded member states.

On average in the EU, the three main tax types, production and import taxes, income and wealth taxes as well as social security contributions had essentially the same shares, 13-14% of GDP in 2006. The application of capital taxes, the fourth category, is not widespread in the European Union, since the amount coming from these types of taxes accounted for no more than a few tenths of a percent of GDP. In respect of Hungary, the ratio of production and import taxes to GDP (15.3%) was somewhat higher, while the ratio of income and wealth taxes was essentially lower (9.3%) than the EU-average. The ratio of social security contributions did not differ considerably from the average of the European Union.

Between 2000 and 2006, the ratio of collected taxes to gross domestic product diminished continuously, and the overall tax burden of 38.5% in 2000 was down to 36.9% in 2006. In 2007, however, a substantial change occurred, as a consequence of which the tax burden increased by 2.5 percentage points to 39.4%. The reason for this change of ratio was that the growth rate (14.0%) of revenues from many different taxes – unlike former trends – exceeded the nominal growth of gross domestic product significantly (6.8%).
Among individual tax types – having quite permanent shares in the past few years – the 11% augmentation of production and import taxes at current prices in 2007 was the highest in the last three years, while the 17% rise of income and wealth taxes and the 15% rise of revenue from social security contributions were the most significant increases in the former seven and the last eight years, respectively.

Tax burden on labour (the ratio of the sum of taxes and contributions to labour costs) was the highest in Belgium among OECD member states in 2007, where this tax burden approximated 56%. The second highest burden (54%) was recorded in Hungary, which was 11-12 percentage points higher than in the Czech Republic and Poland, and 16 percentage points more than in Slovakia. In 2007 the tax burden on labour rose to the highest extent, by 2.5 percentage points in Hungary among member states, while decreased at a similar rate – the highest among member states – in Sweden.
Energy consumption in Hungary was fluctuating in the years following the turn of the millennium, consecutive small increases and decreases were observed. These changes resulted in a slight growth, which was consistent with the development of the economy. Annual fluctuations were caused by ad hoc – mainly meteorological – factors.

In 2007, 1,120 Petajoules (PJ) of energy were used in the national economy, 32 PJ less than a year before. In the last seven years the gross domestic product was up by 30%, while total energy consumption rose by 6%, which showed an 18.5% fall of energy intensity per unit of production. The drop of energy consumption in 2007 was paralleled by a 1.3% increase of GDP, thus the energy intensity of the economy decreased by 4%. Domestic energy consumption per unit of GDP in purchasing power parity was essentially equivalent to EU and OECD averages.

In 2007, there was a decline in the energy consumption of both productive branches and households, communal and other consumers.

Within the sources serving for meeting energy needs, the respective shares of production and imports changed from 42% and 58% in 2000 to 33% and 67% in 2007, so dependence on imports strengthened. Although the fall in domestic production of energy sources stopped in 2005, and the output even increased slightly for two years, production could not reach this level in 2007, and remained 2.5% below the level of the previous year. The share of coal and hydrocarbons within total energy production was down from 54% to 49%, while the share of electric energy produced by nuclear power stations increased from 34% to 38% (its proportion within consumption changed from 13% to 14%). Imports of energy sources growing permanently until 2006 lessened by 4.0% in 2007. More specifically, among the largest volumes of imported energy sources natural gas imports were cut by 8.7%, while the

![Figure 40: Energy consumption per unit of GDP, 2006](based on purchasing power parity)
imports of crude oil and petroleum products went up by 1.5%.

In 2007, the production of renewable energy sources (electric energy produced by water and wind power stations, firewood and other renewable energy sources) equalled 52 PJ, 12.5% of total domestic production. The proportion of renewable energy consumption in total energy consumption was 4.2% in Hungary in 2005, somewhat more than three fifths of the EU average (6.6%). Lower shares were specific for the Czech Republic, Poland and Slovakia, while the proportion of renewable energy consumption slightly exceeded 10% in Estonia and Slovenia, and was even higher than 48% in Latvia.

In the European Union – in line with world market processes – the prices paid per unit of gas and electric energy rose significantly over two years. Household gas

### Table 10: Energy consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>PJ</th>
<th>Change on the previous year, %</th>
<th>Productive branches</th>
<th>Households, communal and other consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>share, %</td>
<td>change on the previous year, %</td>
</tr>
<tr>
<td>2004</td>
<td>1,088</td>
<td>−0.3</td>
<td>43.0</td>
<td>0.5</td>
</tr>
<tr>
<td>2005</td>
<td>1,153</td>
<td>6.0</td>
<td>44.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2006</td>
<td>1,152</td>
<td>−0.1</td>
<td>45.0</td>
<td>1.7</td>
</tr>
<tr>
<td>2007</td>
<td>1,120</td>
<td>−2.8</td>
<td>45.2</td>
<td>−2.4</td>
</tr>
</tbody>
</table>

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Figure 41: Prices paid per one GJ of gas energy, 1 January 2007 (in purchasing power parity)

Figure 42: Prices paid per hundred kWh of electric energy, 1 January 2007 (in purchasing power parity)
prices were a third, while the price of gas consumed by industrial consumers 45% higher than two years earlier. Gas price rise in Hungary concerning both households and industrial consumers was higher in 2006 than the average growth in the European Union. It deserves attention, however, that although households in Hungary – expressed in purchasing power standards (PPS) – were still among those paying low prices, industrial consumers in Hungary paid the most among member states in the medium consumer group, one and a half times more than the EU average.

Electric energy prices in the European Union rose at a lower rate than gas prices over two years compared to January 2005: by 14% among households and by 22% in case of industrial consumers. In Hungary, as for the former consumer group the price rise exceeded the EU average, and remained slightly below that in case of the latter. On 1 January 2007, the price – expressed in purchasing power standards – paid per unit of electric energy consumption was higher than the average of the European Union both among households and industrial consumers, the unit price paid by households for electric energy was the fifth highest in the EU, while among industrial consumers it was the third.
Agriculture

Volume of gross production in agriculture decreased by 9.5% in 2005 compared to the particularly high base in 2004. A further fall of 3.8% was registered in 2006. Agricultural production in 2007 was determined primarily by extreme weather conditions. Frost damage in late spring and the subsequent long dry summer made the situation of this branch more difficult, as a consequence of which gross production of agriculture was 13% lower than in the previous year. Such a fall has not yet been measured over the decade. The production of the branch was down by 24% in the last three years and its gross value added dropped nearly to the same extent as well, the share of which reached 4.2% in national production.

Annual fluctuations of agricultural production were dominantly influenced by the yield of crop products, and especially cereals. While the outstanding, 48% growth in the volume of crop products resulted from the record high cereal production in 2004, last year the production was hardly more than half of the volume recorded in 2004 because of the extraordinary drought. The drop in 2007 was enhanced by the severe frost damage to orchards in late spring, owing to which fruit production was less than half of that observed in the previous year. Affected by these natural factors the volume of crop products in 2007 declined by 21% compared both to the previous year and the average of the previous five years; in comparison with the high base in 2004 the fall reached 36%. The gross production value of animal husbandry has been gradually diminishing since the turn of the millennium, though at a slow pace, its volume being 0.4% lower in 2007 than in the previous year.

In crop production on arable land the sowing area of cereals saw a slight but gradual decrease in the past few years, while that of oil seeds easy to sell grew gradually. In 2007 9.6 million tons of cereals were produced on a hardly smaller area than in the previous year, 4.9 million tons (33%) less than a year before. Total production of ear cereals equalled 5.6 million tons, which was 9% lower than the production in the previous year, and 11% less than the average of the previous 5 years. Except for winter barley the production of ear cereals was down compared to 2006, by between 3% and 35%. The production of wheat, the most significant ear cereal was 4 million tons in 2007, 388 thousand (9%) lower than in the previous year. (In 2006 domestic consumption of wheat was equivalent to 2.9 million tons.) 77 thousand tons of rye and 1 million tons of barley were harvested. The crop production of oats was 122 thousand tons, and 373 thousand tons of triticale were produced. In 2007, the harvested area of maize was almost 8% smaller than in 2006, since due to the drought 142 thousand hectares were not harvested as grain maize but either as silage maize or were ploughed. 4 million tons of maize were produced, less than half the volume in the previous year, and only 55% of the average of years 2002–2006. (Domestic consumption of maize was 3.9 million tons in 2006.) Because of the dry weather the average
yield of ear cereals – with the exception of winter barley – was lower than in 2006 and than the average of the previous 5 years.

The shortfall in the production of cereals that could already be anticipated from the middle of the summer hit the surrounding countries, too and was accompanied by world market price raising effects as well. The related high price rise reduced the income deficiency of crop producers considerably, whereas livestock farmers could not include the price rise of animal feedingstuffs in the sales prices of their products. The drought influenced the production of cereals in Bulgaria and Romania the most, their production fell by 42% and 50%, respectively. In the 27 member states of the EU 258 million tons of cereals were produced, 6% less than a year before on 57.2 million hectares, nearly the same area as in 2006. Hungary accounted for 3.7% of cereal production in the EU, which was 1.7 percentage points lower than in the previous year.

Among plants harvested in autumn, 1 million tons of sunflower were produced, 12% less than a year earlier. The harvested area of rape was up by 54%, and its production of 494 thousand tons exceeded by 46% that recorded in 2006. The cropping area of sugar-beet continued to decline last year, its production of 1.7 million tons was 780 thousand tons lower than in 2006. 536 thousand tons of potatoes were harvested, which volume was 5%, while the average yield 13% less than in the previous year.

According to preliminary data 1.5 million tons of vegetables were harvested in 2007, 20% lower than in the previous year, and some 370 thousand tons of fruits, 42% of the volume in 2006. The grape production of 520 thousand tons was essentially equal to that a year before.

The downward trend of livestock continued. According to data of the census on 1 December 2007 only cattle and turkey stocks were larger than a year earlier. Private farmers farmed 31% of cattle, 33% of pigs, 45% of chickens, hens and cocks and 86% of the sheep stock. The fall in the number of cattle slowed down in the last few years and stopped in 2007, the stock numbering 705 thousand at the beginning

Table 11: Production of major crops

<table>
<thead>
<tr>
<th>Crops</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2006 as % of EU-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>5,088</td>
<td>4,376</td>
<td>3,988</td>
<td>3.3</td>
</tr>
<tr>
<td>Maize</td>
<td>9,050</td>
<td>8,282</td>
<td>4,026</td>
<td>8.5</td>
</tr>
<tr>
<td>Barley</td>
<td>1,190</td>
<td>1,075</td>
<td>1,041</td>
<td>1.8</td>
</tr>
<tr>
<td>Sugar-beet</td>
<td>3,516</td>
<td>2,454</td>
<td>1,676</td>
<td>1.5</td>
</tr>
<tr>
<td>Sunflower</td>
<td>1,108</td>
<td>1,181</td>
<td>1,043</td>
<td>21.6</td>
</tr>
<tr>
<td>Rape</td>
<td>283</td>
<td>338</td>
<td>494</td>
<td>2.8</td>
</tr>
</tbody>
</table>
of December, 0.4% more than in the previous year. Cow stock (323 thousand heads) essentially stagnated last year. Although the number of dairy and dual-purpose cows lessened by one thousand each, with subsidising farmers of beef cows the stock size of this latter type of cows has been increasing, and similarly to the previous year their number was up by 4 thousand over a year.

The pig stock was 3.9 million on 1 December, 127 thousand (3.2%) less than a year before but 7 thousand more than two years before. More specifically, farms had 260 thousand breeding sows, 30 thousand (10%) less than in the previous year. Agricultural enterprises and small-scale producers reduced their sow stocks by 4.2% and 22%, respectively.

The increase of the sheep stock in the middle of the decade proved to be provisional, in the past two years drops were measured again. On 1 December 2007 the stock numbered 1.2 million, 67 thousand (5.2%) less than a year earlier. Agricultural enterprises and private farmers cut their stocks almost to the same extent (by 5%).

On 1 December, 38.3 million poultry were counted, 1.4 million less than in the previous year. The stock of chickens, hens and cocks declined at a lower rate, by 1.4% over a year, within which the stock of private farmers dropped significantly, by 12%.

According to preliminary data slaughter animal production was equivalent to 1.4 million tons in 2007, 22 thousand tons (1.6%) more than in the previous year. Slaughter pig output accounting for 46% of slaughter animal production was up by 5.1% over a year but still remained lower than in 2004. The production of slaughter poultry, the weight of which was similar to that of pigs, rose somewhat in 2005 but has decreased again since then, last year by 1.7% compared to 2006. Approximately identical volumes, 19–20 thousand tons of slaughter sheep have been produced for years, while the slaughter cattle production of 86 thousand tons went up slightly, by 2.4% over a year.

Farms produced 1.8 billion litres of cow’s milk – representing the largest volume among animal products –, a volume comparable with that in the previous year, and 2.8 billion hen eggs, 4% less than in 2006. The slow growth of raw wool production observed for several years stopped, the volume of 4,400 tons was 7% lower than in the previous year. Honey production saw a fall as well, the 15,900 tons produced was 8% less than in 2006.

Producer price level of agricultural products, following a stagnation in 2005, rose by 10.6% in 2006, and at an even higher pace, by 22% in 2007. The 41% increase in the price level of crop products was largely due to the price rise of cereals by 70%, unmatched for several years, and that of fruits by 43%. Back in 2005 supply characterised the market of cereals, while as a result of a fall in production, prices rose in 2006, which continued more markedly in 2007. Industrial crops were less hit by weather conditions, even though their slow, 1-3% price increase in the past 2-3 years accelerated in 2007 to reach over 10%. A key role was played in this by the 26% price rise of oil plants. Producer price of vegetables, after the 14% rise in 2006, went up to a lower extent, by 4.9% in 2007. The price level of live animals and animal products was 3.6% higher than in 2006. Of live animals the producer prices of slaughter cattle and slaughter pigs decreased by 8.8% and 11%, respectively, while 16% more was paid to producers for slaughter poultry than in 2006. The prices of animal products, which have a relatively low proportion, after a 2.3% increase in 2006 rose at a considerably
higher rate, by 12% in 2007. More specifically, prices of cow's milk and hen eggs increased nearly to the same degree, by 12–13%.

Price level of agricultural input was up by 14% in 2007. Resulting from this and the 22% rise of agricultural producer prices the terms of trade in agriculture improved further, this indicator was 107.0%.

**Industry**

In 2007, industry mitigated the deceleration of the national economy. It had a volume increase of 6.2% in gross value added, which was a rate higher than in any other branch. Volume of investments, in a stagnation period observed in the whole of national economy, grew by 19%, to which mainly outstanding investment rates in the manufacturing industry contributed.

Lower growth rates in industrial gross production, featuring the early years over this decade, were replaced by a more dynamic expansion from 2003 onwards. A growth of 9.9% in 2006 was followed by a rise of 8.1% in 2007. Similarly to previous years the production growth was mainly fuelled by export sales. Compared with prior years export sales kept strengthening, while volume increases in domestic sales decelerated: in 2007 their growth was 16 and 2.7%, respectively.

Growth in industrial production occurred parallel to a 0.9% year-on-year employment reduction, output volume per employee grew by 9.2% on the prior year. In 2006, productivity increased by 12%.

In 2007, in seven industrial branches production volumes exceeded by more than 10% the level of the prior year, five branches showed minor, up to 4% increases, four saw decreases.

In 2007, machinery industries kept representing the driving force, however, the mainly export-driven, but moderately important manufacture of leather products and footwear increased to the largest extent, by 52% (in 2006, its growth rate was also outstanding).

Among machinery branches, the most important one, manufacture of electric machinery and optical instrument industry grew at a slightly higher rate than in the previous year, by 13.3% on 2006. Volumes in manufacture of machinery and transport equipment grew by 15 and 16%, respectively, on the prior year; in this case transport manufacturing represented a significant deceleration compared to the growth in 2006. All machinery industries are export-driven, however, growth rates of the three industries, exceeded sensibly the industrial average only in case of manufacture of electric machinery and optical instrument, in case of manufacture of transport equipment the 16% growth was significantly lower on the preceding year. Among high-tech industries 'office machinery and computer manufacturing', 'radio, television and communication equipment and apparatus manufacturing' as well as 'medical, precision and optical instrument, watch and clock manufacturing' together amount to a total of one fifth in industrial output and, as a result of their export-orientation, account for 30% in external sales. Among high-tech branches, the most important 'radio, television and communication equipment and apparatus manufacturing' grew at a rate significantly higher than the industrial average, by 18%, while output growth rates for the other two industries were slightly below the industrial average (6.1 as well as 5.7%).

Among chemical industries 'manufacture of rubber and plastics' grew the fastest
(by 13%), partly driven by capacity investments in the branch. This industry had an increase of three tenths in export sales on the prior year; however, volumes in domestic sales were below the level of 2006. The other two chemical industries, 'manufacture of coke, refined petroleum products' as well as 'manufacture of chemicals' grew by 4.1 and 2%, in case of the former parallel to an increase of 9.1% in export sales, in case of the latter besides a growth of 3.2% in external sales and a moderate increase (0.7%) in domestic sales.

'Manufacture of basic metals and fabricated metal products' had a fluctuating performance over recent years. Significant production increases in 2003 and 2004 were followed by a moderate decrease in 2005, then by a dynamic output increase in 2006. The 11% growth of the previous year was not achieved in 2007, a 3.4% output increase covered a fall of 7.2% in domestic sales and an export growth decelerated to 13.5%.

Among the three underperforming industries, 'manufacture of food products, beverages and tobacco', similarly to prior years (but opposed to the moderate growth in 2006), declined again, by 4.4%. This was attributable to domestic sales falling even faster than earlier, but at the same time export sales, accounting for one fourth in the industry's sales, stopped declining in 2007, and grew by 3.1%.

Among the industries of lesser importance 'manufacture of textiles' fell by 14%, while 'manufacture of pulp, paper and paper products' stagnated. Manufacturing n.e.c, similarly to the prior year, had an above average increase of 11%, manufacture of non-metallic mineral products produced more by nearly one fourth on the prior year, fundamentally due to outstanding export sales.

Electricity, gas and water supply had an output increase of 3.7%. Mining production, following a strong performance in 2006, fell again by nearly one fifth in 2007.

**Branch structure** in manufacturing needs multiyear processes to show effective and analysable changes. Machinery industries, over five years to 2007, rose their combined output share from 43% to 49%; following a transitional decrease share of chemical industries has been increasing for years and reached an overall share of more than 16% in 2007. Over the prior years, food industry underwent marked changes: following a decrease of 5 percentage points its share fell below 10%. Light industries also had lower contributions to the overall output, their share decreased from 8% to below 6%. Manufacture of non-metallic mineral products showed only relatively minor changes, its share fluctuated between 2.3 and 2.8%, while share of metallurgy rose from a low point of 6.8% in 2002 to nearly 8% in several years. Electricity, gas and water supply approached a share of one tenth, but over the last three years it fluctuated around 7%. Mining activities continued to decrease, their low share of 0.5% declined to 0.3% over the last year.

Among groups by **staff sizes**, **industrial enterprises** with at least 250 employees grew at the highest rate, by 8.9% in 2007. This enterprise group generated a share of three quarters in total output and gave 54% of domestic and 85% of export sales. Enterprises with 5–49 employees had an 8.3% higher, while corporations with 50–249 employees had a 5.1% higher output. Output increases in large enterprises were solely driven by a growth of 17% in export sales offsetting one tenth lower domestic sales. For **small and medium-
sized enterprises both export and domestic sales volumes exceeded the prior year, but small enterprises show relatively higher export sales, and medium-sized enterprises had a higher rate of domestic sales.

Industrial output grew in all regions, while in 2006 two regions had lower output levels than one year before. In 2007, Central Transdanubia raised its industrial output the fastest, similarly to 2006, but the growth rate of 2007 (15%) was below the level a year before. In 2007, Southern Transdanubia increased its industrial production at a pace near average (8.3%). Other regions show output increases below average, Northern Hungary, following a 15% growth in 2006, presented the lowest growth rate exceeding the prior year’s level only by 1.3%.

Industrial sites in Central Transdanubia kept producing the highest output values besides the highest national per capita output volumes.

Industrial output in the European Union (EU-27) – according to working-day-adjusted indices –, following a growth of 3.9% in 2006, grew by 3.3% in 2007. Industrial output in Central and Eastern European countries having accessed in 2004 and in 2007 grew at a higher rate than in the old member states; within this primarily the Visegrád Countries fuelled the growth: output in Slovakia grew at an outstanding rate, by 13%; on 2006, while growth figures in the Czech Republic and Poland were, respectively, 8.1 and 9.5%.

Out of major industrial countries, France had an output growth of 1.5%, industry of the United Kingdom stagnated similarly to the prior year, and the Italian output hardly reached the level of 2006. Only Germany showed a significant growth with an output increase of nearly 6%, similarly to 2006.

Output growth rates in the United States and Japan were slightly below the level of 2006 and also below the rate measured in the European Union: in 2007 their output growth rates were 2.1 and 2.6%, respectively, on the prior year.

Last year, industrial producer prices, besides growing price levels in domestic sales and lessening ones in export sales, remained essentially the same (grew by 0.2%).

Domestic sales prices in industry, last year, grew by 6.4% on 2006. Within this manufacturing prices grew by 4.3%, mining prices by 1.3%, while electricity, gas and water supply, which represents a one-third share in domestic manufacturing sales, had a price increase of 12.7%. Growth
rate in domestic sales prices was 2 percentage points lower in 2007 than in the three preceding years.

Annual price rise of 2007 affected nearly all branches, only 'manufacture of coke, refined petroleum products' showed a decrease (despite showing the highest growth rates in prices in November and December). This decrease was triggered by high prices prevailing in the base period, as one and two years earlier this branch showed outstandingly high increases in domestic sales prices. Among manufacturing industries the moderately important wood-working industry showed the fastest average price increases annually, followed by a price rise of 8.4% in the manufacture of food, beverages and tobacco products, having a high share in manufacturing.

Annual export prices in sales have been practically unchanged since the turn of the millennium, within this over the last year – following an increase of 5.2% in 2006 – they fell by 4.8%. Price changes were mainly influenced by annual changes in the HUF exchange rate. In 2007, the HUF price level grew by 6%. Last year, export prices declined in several industries, e.g. in all machinery industries, the highest decrease of nearly 10% occurred in the machinery and equipment n.e.c. manufacturing. Coke, refined petroleum product manufacturing showed an annual average decrease of 1.9%, while in November–December a record high growth. Food industry raised its prices, by 2.1%, in the export sales, too, which was the second highest rate in export sales among the industries.

On the average of the European Union, industrial producer prices grew by 2.5% over 2007, within which by 2.7% in domestic sales. Price increases were roughly identical with the earlier period, producer price increase, as an annual average, was 2.3% between 2001 and 2007, within this 2.9% in domestic sales.

Construction

An overwhelming majority (85%) in construction output was produced by construc-
tion organizations. Their output grew for five years from 2000 onwards, since then it has been decreasing. Production by non-construction organizations over this period, despite fluctuations, grew continuously, while an increasing tendency in residential constructions was replaced by a decline from 2004, which drove down their performance below the level of 2000.

Recovery in the construction market over a five-year period after the turn of the millennium resulted in a lasting growth in construction production; however, after a slight decline of 2006, a major, 14% fall occurred in 2007. While formerly building erections, from 2005 onwards, primarily the development of the expressway network fuelled the growth. Deceleration in road- and motorway constructions, which had a one-fourth share in output, caused a decrease in 2007, however, the construction industry performed better by 36% than in 2000.

In 2007, both major construction groups performed worse, however, civil engineering did so in a more accentuated manner. Following the turn of the millennium volumes in building construction were lower in 2004 and in 2007 than a year earlier, respectively. Civil engineering works declined slightly in 2001 and in 2003 and from 2005 onwards a marked fall occurred. In 2007, building erection suffered a volume decrease of 9.8%, civil engineering fell by one fifth on 2006.

In 2007, in output value, construction industry generated at current prices nearly HUF 2 trillion, which accounted for 4.2% of GDP. 58% of output value was in buildings. 42% of output value at construction organizations was produced by micro-enterprises with less than 10 employees, while 34% by enterprises with more than 50 employees.

Downturn in contracting was less substantial than in production, enterprises concluded 10% less contracts in 2007, than a year before. Building erection contracts had a volume increase of 9%; however, the volume of civil engineering contracts fell by nearly 30%. Increases at buildings were primarily generated by major contracts on commercial and office buildings. At civil engineering works the downturn was caused by volume decreases in new contracts on road developments.

At year-end, total stock of orders was 29% less than a year ago. This was made up by a 9% higher stock of building orders and a 53% lower stock of civil engineering orders.

In 2007, cost-based prices in construction industry on the average grew by 6.3%, at a lower rate than in 2006.

In the EU, from 2000 onwards, the Baltic states, Romania and Bulgaria performed best in the construction industry. In
Germany a lasting recession seems to have ended, the decrease turned into growth in 2006 and there was some output growth in 2007, too, however, the level of 2000 was not reached again. In Poland a growth started in 2005, the output level of 2007 surpassed that of 2000. In Portugal a recession evolved from 2002 onwards, which in 2003 drove down overall construction performances below the level of 2000, then resulted in a further decrease of 18% in 2007.

**Transport**

Growth in freight transport performance, expressed as freight-ton kilometres, following a three-year boom, decelerated in 2007, but remained significant. Quantitatively: following 12.5%, 14.5% and 15% growth rates, respectively, in 2004, 2005 and 2006, performance in 2007, despite a 2% decline in freight volumes, exceeded by 11 percent the prior year, i.e. longer average transport distances had a major role in growth. Though increases in average transport distances affected growth in performances significantly in previous years as well, this factor became all-determining in 2007. These processes are underpinned by increasing tendencies of average transport distances both in domestic and international traffic and a growing expansion in long-haul international transport. (Average transport distances varied between 330–410 km for international hauls and 60–65 km for domestic hauls in the past years.) In 2007, domestic and international traffic showed a performance ratio of 29/71 representing ratio-shifts of 2 percentage points over one year and 8 percentage points over 3 years in favour of international transports. The reason for this is that dynamics in international transport performances were above average during this period and exceeded dynamics manifold in domestic transports. In 2007, performance of international traffic grew by 14% on the prior year, opposed to a 5% increase in domestic traffic.

Among major sectors, international activities in road transport grew primarily. In 2007, its performance in freight ton-kilometres grew by one fourth on the prior year, while rail performances remained essentially unchanged. As a consequence, road haulage strengthened in conducting international traffic. It internationally outperformed rail transport 2.6 times in 2007, while 1.4 times in 2004. Similarly, road haulage was the major factor for increasing domestic traffic; its performance grew 6% on the previous year. Recession of rail transport continued, even strengthened approaching 14%. These tendencies of opposing directions deepened road advantages further, which were already significant in domestic transport, as contrasted to the rail. In 2007, in domestic relations road transport performed 10 times better than railways, while this ratio stood at 6.4 three years earlier.

Regarding combined domestic and international hauls, road transport had a 17% higher performance; rail transport – where opposed to preceding years, international traffic increases did not offset domestic travel falls – had a 2% lower performance, in freight-ton kilometres, in 2007 on the previous year. Freight market shares of the two determining sectors reflected a nearly 4-percentage-point upward shift over one year at road transport (more than 10 percentage points over three years) opposed to a more than 2-percentage-point (and 5-percentage-point) downward shift at rail transport, so in 2007 had a 67% and a 19% share, respectively. Pipeline transports lost
ground, too, more than one percentage point over one year (4 percentage points over three years); and represented roughly a one-tenth part in 2007. Their decelerating growth in freight-ton kilometres, which characterized the prior years, was followed by a drop of 1% in 2007, despite an upturn in domestic turnover; attributable to a downturn in the more sizeable international turnover. Having around a 4% share, inland water transport showed a volatile performance, in 2007 a growth of 15% following the last year’s bust. (The latter sector includes Hungarian and international shipping on Hungarian inland waters, mainly directed to international destinations. It is to be noted that Hungarian ships had a one-tenth share in performances.)

In passenger transport, interurban traffic showed a volatile but continuously growing performance in passenger kilometres over the recent years. Performance in 2007 grew more moderately than in 2006 (8%), and was equal to the 2% growth in 2005, despite a 6% decline in passenger figures. Passenger numbers have declined in nearly all years since 2003, i.e. performance increases were essentially generated by longer travel distances. This was mainly attributable to booming – principally international – air traffic; rail and bus traffic mostly handling domestic trips showed lessening tendencies. In 2007, regarding domestic and international traffic as combined, rail transport had a 9%, and buses had a 5% lower performance in passenger kilometres, while air transport had an increase of 22%. This year overall domestic traffic showed a decrease of 7%, while international traffic an increase of 20% compared to the previous year. As a result of these opposing changes, over only one year, a ratio shift of 6 percentage points (of around 20 percentage points since the beginning of the decade) occurred in favour of international traffic, so this had a share of 38% in performance opposed to a share of 62% for domestic traffic.

In passenger transport, interurban traffic showed a volatile but continuously growing performance in passenger kilometres over the recent years. Performance in 2007 grew more modestly than in 2006 (8%), and was equal to the 2% growth in 2005, despite a 6% decline in passenger figures. A decline in passenger numbers has been observed in nearly all years since 2003, indicating increased travel distances. This trend is mainly attributable to the rise in international air traffic, while rail and bus traffic, primarily servicing domestic trips, showed declining performances. In 2007, the performance of domestic and international traffic combined saw a 9% growth for rail transport, whereas buses experienced a 5% drop. Air transport recorded a 22% increase in passenger kilometres. Overall, domestic traffic witnessed a 7% decrease in 2007, whereas international traffic registered a 20% increase. As a result of these contrasting trends, the ratio of international to domestic traffic shifted by 6 percentage points over the year, leading to an international share of 38% compared to a domestic share of 62%.

The decline in local passenger transport continued in 2007, with passenger numbers – following a decrease of 5% in 2005 and 3% in 2006 – falling by an additional 3%. This drop impacted most modes of public transport. In 2007, the number of bus passengers fell the most, by 6%, while that of trams and trolleybuses dropped by 1–2%. Though the metro and the underground showed a growth of nearly 1%, compared to the previous year, it represented a substantial reduction in passenger numbers. Major modes of public transport, in local traffic, can be considered permanent for several years. In 2007, 60 percent of passenger traffic was handled by buses, while trams and trolleybuses had a share of 24%, and a 13% proportion was represented by the metro and underground.
For – interurban and local – domestic public transportation decreases in passenger traffic mean a further expansion of individual traffic, which is underpinned by the change in the number of passenger cars. The country’s passenger car stock grew continuously also in the 2000s, though its growth rate lessened: opposed to an annual 5–6% in 2001–2003, from 2004 onwards it varied around an annual 2%. Over 2007, the stock reached 3 million pieces and even exceeded it by the year-end. However, a slow reduction in average age stopped at 10.3 years, at the level of year-end 2006. These processes were underpinned by a tendency change in figures of first-time registered cars in Hungary: a pre-2003 growth was followed by a post-2004 decline. In 2007, on the prior year, 4% less, 196 thousand passenger cars were first-time registered. Of these more than two thirds were new vehicles, which also represented a slight decrease, compared to the ratios over former years. Fewer first-time registrations parallel to a growing stock can be explained by a decreasing number of vehicle discarding, consequently a lessening replacement rate.

National network of public roads at year-end 2007 amounted to 31,183 km. Within this 858 km was motorway, its network grew by 67 km in 2005, by 149 km in 2006 and by 73 km in 2007, which corresponds to a growth of 50% over three years. There were slightly more than 9 km motorways per one thousand square kilometres at year-end 2007, while nearly 7 km at year-end 2005. At the latter date this indicator was around 14 km in the European Union (EU 27) on the average. Of countries accessed at the same time as Hungary – also according to data from 2005 – Slovakia and the Czech Republic had similar figures, but Slovenia had a significantly higher one (28 km). Compared to Hungary, there are also much more extended networks in the neighbouring Austria and Croatia.

In 2007, the number of traffic accidents on public roads decreased by 2%. Their outcomes were less serious, the number of fatal accidents decreased at a higher rate, by 6%. In 20,600 accidents more than 27 thousand people injured and 1,230 died, 73 fewer than one year before. Half of those died in the fatalities were innocent victims. 91% of accidents were caused by vehicle drivers, most frequently as a result of improper speed selections. 14% of accidents were caused by drink driving, representing a slightly greater rate than in preceding years.

Telecommunication, Internet

The telecommunication sector in 2007 – similarly to prior years – was determined
by a deepening penetration of mobile phones versus fixed-line phones. The number of fixed lines decreased at a higher rate than earlier, by 3.3% in 2007, despite the gradual expansion of VoIP/Internet phoning via cable TV networks (more than 5% of lines). At the end of last year, 3,256 thousand lines were operated in Hungary, more than half million less than in 2000. Of all fixed lines, 572 thousand were ISDN, their number decreased by 13 thousand over one year, while the number of traditional fixed main lines fell by 109 thousand. In Hungary the fixed main lines per 100 residents ratio was 32 in 2007, 33 one year back, this latter being quite low in international comparison (2006), not reaching the 48 pieces union-wide average, but at the same time higher – excluding Slovenia and Estonia – than in other Central and Eastern European countries. Otherwise, Germany represents the highest value in the EU, where the ratio of lines to 100 inhabitants was 66 in the mentioned year.

The number of mobile subscriptions – despite an ongoing market saturation – still keeps rising; though the dynamic growth experienced at the turn of the millennium decreased gradually over past years. At the end of last year the number of subscriptions exceeded 11 million, more than three times as many as the number of fixed lines. While in 2005 and in 2006 the growth rate was 7% on the prior year, it was 11% last year, so the number of subscriptions grew by nearly 1.1 million. Prepaid subscriptions retained their predominance, despite their year-by-year declining proportion, which was 62% in overall subscriptions at the end of the last year. In Hungary, mobile phone penetration can be regarded as high – 104 subscriptions per 100 residents in October 2007 – though not reaching the union-wide average (112).

The number of outgoing fixed-line calls – excluding internet calls – decreased at a significantly higher rate over one year than the number of main lines. A decrease of 15% meant slightly more than 2.2 billion outgoing calls in 2007. Due to the rapidly depreciating dial-up internet and an extremely strong expansion in broadband connections the number and length of internet calls decreased strongly and roughly at the same rate (57–58%) compared to 2006. Owing to preferential phone rates and subscription packages, too, call durations (without internet calls), on average, grew by 4%, within this local calls by 7%, on 2006.

The number of outgoing calls from mobile networks amounted to nearly 7.2 billion last year. Besides an 11% growth in subscriptions, in 2007 6% more calls were initiated than one year before. The duration of mobile calls exceeded 13.6 billion minutes, which was 15% higher than one year before. Calls within own network keep dominating calls with a more than 60% share. The number of outgoing mobile calls exceeded outgoing fixed-line calls 3.3 times, in overall call duration terms the difference was nearly 2 times. Though more than three quarters are mobile calls within phone calls, in call duration terms this latter has only nearly more than a two-third share. So, on average, fixed-line outgoing call durations were significantly longer, in 2007 3 minutes (without internet calls), opposed to an average of 1.9 minutes in mobile networks.

After a more than 37% growth internet subscriptions exceeded 1.8 million at year-end, a rate higher than the 33% measured in the previous year. This develop-
ment is due to emerging modern technologies and accelerating competition among providers. 2007, for the wireless segment, was featured by a deepening market penetration, achieving a growth of nearly 73% mainly fuelled by more favourable mobile internet prices. In broadband internet, over this year, cable subscriptions grew the fastest, by 49%, xDSL subscriptions more slowly, by 24%. The number of broadband (cable and xDSL) internet subscriptions grew by 33% on the whole over one year to be 21 times higher than the overall number of switched-line and ISDN subscriptions.

38% of Hungarian households had an internet connection in 2007. This ratio grew by 6.1 percentage points on 2006, however, this growth was not so high as in 2006 (11.2 percentage points). Broadband internet penetration is a priority objective for the European Union. The ratio of households with a broadband connection was 33% among all Hungarian households. The rate of growth in 2007 was identical with that of 2006 and grew 11% on the prior year. 86% of households with an internet connection used a broadband connection, opposed to the share of 68% measured in 2006. So an increasing number of people use broadband services, and their opportunities are even exploited by more and more people as well, due to constantly decreasing access fees, developing service network and competition.

Most of internet users search for information (99%) and communicate online (95%). The third major goal is to use online government services; it was indicated by 49% of internet users. 48% of net users use this tool to exploit education, training and similar services, and 25% to sell products and services and use
online banking services. Among internet use purposes the share of education and training and similar services grew the most strongly, in 2007 exceeding with nearly 19 percentage points the previous year. In 2007, 12% of population bought online products or services, 4 percentage points more than a year before. Among those having already used internet, this share was 22%, nearly 6 percentage points higher than in 2006.

The number of postal facilities at year-end 2007 was 2,744 (2,844 in 2006), of this 168 were operated in Budapest and 749 in other towns. The transition to the mobile post system was completed, the number of village post offices decreased slightly. The number of mail consignments, similarly to the previous year, was below 1 billion, slightly more than 900 million.

The broadcasting time of television channels in 2007 grew at a higher rate than in 2006, by 2%, so exceeded 2.1 million hours. Wire-based cable systems kept expanding. In 2006 more than 2.1 million dwellings were connected, calculating with the housing stock at year-end 2006, this is 50% of flats, concentrated to 53% of the 3,145 Hungarian settlements. Total network length was 106 thousand km, the share of networks upgraded to bidirectional data transmission was 44% in 2006. Radio broadcast times, following relatively fast growth rates (19% in 2006), on the whole decreased by 1% to slightly over 1.2 million hours.

Retail trade

After a three-year deceleration, retail trade turned into recession in 2007. Compared to the previous year, sales had a volume increase of 5.8% in 2004, 5.5% in 2005 and 4.1% in 2006, while fell by 3% in 2007. This process was marked in the turnover of non-food stores, though the tendency change of 2007 was felt in food, beverages and tobacco retailing, too.

In 2005–2006, specialized and non-specialized food, beverages and tobacco retailing – despite the whole of retail trade – had a sales upturn and increases of 4.6% and 5% were followed by a relatively moderate decrease of 1.3% in 2007. Turnover decrease of 1%, by non-specialized food, beverage and tobacco stores was even smaller than that. These shops (hyper-, supermarkets and groceries) concentrated more than nine tenths of sales for the activity group; specialized food, beverage and tobacco stores, accounting for less than one tenth – following relatively moderate growth rates over preceding years – fell by 5.2% in 2007.

Overall sales in non-food stores (whose growth neared 10% in 2003 and exceeded 8% in 2004) grew by 6.2% in 2005, 3.3% in 2006, while fell by 4.6% in 2007 on the prior year. Above average recession featured the two activity groups of highest turnover. In 2007 furniture and household goods stores, following an earlier significant deceleration in growth, registered a 5.7 percent less volume in overall turnover than a year before. Over 2006, in book, newspaper and other goods retail trade an earlier growth deceleration turned into a recession, which strengthened further in 2007 and amounted to 7.3%.

At the highest rate, by 9% sales in non-specialized stores, while at the lowest rate by 1.2% – following a two-year upturn – textile, clothing footwear sales fell back. However, the abovementioned two activity groups only accounted for a share of 5–6% from the over-
all retail turnover, similarly to retailing in pharmaceutical and medical goods, cosmetics articles, which – against the general tendency – expanded its sales in 2007. Its turnover had a volume increase of 3.6% compared to 2006, which at the same time represented a strong deceleration on 12-13% growth rates of the prior two years. Besides, only the – half-half percent shared – second-hand and mail order retailing grew their sales by 4.1% as well as by 12%, these latter have shown an ongoing (although fluctuating) growth tendency for years.

Differing dynamics of the two main activity groups were reflected by changing turnover structures. Total sales of 2007 – HUF 6.2 trillion – showed a half-half distribution between food, beverages and tobacco stores and non-food retailing units. Compared to the previous year, an about 2-percentage-point share-shift occurred in favour of food, beverage and tobacco retailing, a rough share-shift of 3 percentage points on the relatively stable structure of prior years. Within this, non-specialized food, beverage and tobacco shops raised their shares and approached 46% in the overall retail trade turnover of 2007. This process must be largely affected by emerging big-box stores providing a wide range of food and manufacturing commodities, having a large ground floor. Within non-food stores primarily ‘furniture and household goods’, ‘books, newspapers and other retailing’ had a lower share in turnover, while ‘pharmaceutical and medical goods, cosmetics articles’ had a larger share.

Overall retail trade turnover in 27 member states of the European Union – according to calendar-day-adjusted Eurostat data –, over recent years, showed a relatively even annual increase of around 2-3%; overall sales volume of 2007 exceeded by 2.3% the previous year. Till 2006 Hungarian retail trade had markedly higher dynamics than the union-wide average, though their difference lessened as a result of the deceleration, then due to the tendency change of 2007 it turned reverse resulting in a significant gap. For 2007, available monthly dynamics of member states – besides Hungary – refer to a decrease only in Germany and Italy. Retail trade growth in the countries having acceded the EU in 2004 and 2007 overwhelmingly exceeded the union-wide average, in this group, the Baltic states, Poland and Romania grew outstandingly.

Figure 50: Volume changes in retail trade turnover (compared to previous year, calendar-day-adjusted data)

Retail trade in motor vehicles, parts and accessories as well as fuel, which are excluded from retail trade in the European statistical system, accounted for HUF 1.2 trillion as well as HUF 1.1 trillion in 2007. Distributors of motor vehicles, parts and accessories registered a strong deceleration over recent years. Their overall sales volume from two-digit increases of 2001–2003 decelerated to
6.8% in 2004, 1.4% in 2005, stagnated in 2006 and fell back by 5.7% in 2007. Over these years fuel stations had an ongoing increase of turnover: 2.9% in 2005, 8.6% in 2006 and 3.7% in 2007 on the prior year.

Tourism, catering

Tourism expansion continued globally over 2007: compared to 2006, 6% more, a total of nearly 900 million international tourists visited different countries worldwide.

The number of international visitors coming to Hungary exceeded 39 million, which was 2.8% higher than in 2006. A growing share of visitors, nearly four fifths in 2007, was constituted by same-day visitors, 1–3 day as well as 4 or more day visits showed a decreasing tendency with 11–11% shares.

Visitors spent on the whole 97.6 million days in our country; their average length of stay was 2.5 days in 2007 as a result of an ongoing decline. By travel purpose transit visitors had a 38%, while shopping visitors a 19% share. Within tourist motivations leisure visitors had a 27%, business visitors had a 4.1% share. Over recent years, share of tourist visitors lessened slowly; 37% of incoming visitors in 2004 had leisure or business tourist purposes.

Hardly one tenth of international visitors choose public and private accommodation establishments, others only doing a trip as well as staying overnight at relatives, friends or having an own real estate in Hungary.

In 2007, international tourists spent 10 million nights at public accommodation establishments, which equalled the level a year ago. In five-star hotels an increase of 3%, in three-star units a 2% growth occurred, four-star units stagnated, one- and two-star units had a nearly one-fourth decrease. Total hotel nights essentially equalled the prior year, similarly to boarding houses. Disregarding a 2% increase in camp sites, all accommodation types reported declining turnovers and the strongest decrease of overnight stays occurred in tourist hostels.

EU-27 citizens spent 7.5 million nights at public accommodation establishments and had a share of 75% in total international tourism nights. Compared with 2006, visitors from the old 15 member states spent 4% less tourism nights; while guests from countries having acceded to the EU in 2004 and 2007 spent 23% more tourism nights in Hungary. Citizens from all the five major source countries (Germany, Austria, United Kingdom, United States and Italy – selected

8 Excluding lorry drivers.
by overnight stay figures) spent fewer nights than a year before; a considerable recession occurred in case of the Germans (8%) and the British (16%). However, out of major source countries Spain and France had an increase of paid guest nights (respectively 14% and 6%) and Romanian tourists had a four-tenth increase.

Citizens of the above eight countries accounted for six tenths in total international demand at public accommodation establishments (based on overnight stay figures), a share decreasing gradually. The lessening interest of German tourists – who accounted for a 45% share of 1997 tourist nights, but had only a share of 10% ten years later – plays the most important role in this. Each of the other major source countries had 5–7% shares, Spanish, French and Romanian guests on the whole account for a share of 11% in international demand.

In 2007, Hungarian visits abroad numbered somewhat more than 17 million, 4% more than in 2006, but 2.8% less than in 2005. Most Hungarians, nearly two thirds of them had international day-trips, which is also more and more typical among incoming international visitors.

In 2007, 42% of population had a multi-day trip in Hungary. Over these trips travellers spent 105.6 million days. An overwhelming majority, 94% of trips had tourist purposes, within this VFR (visiting friends and relatives) trips accounted for a share of nearly one half, while entertainment, recreation, sightseeing, hiking purposes had an overall share of one third.

Domestic tourist nights numbered 9.8 million at public accommodation establishments, 2% more than a year ago. This expansion, except tourist hostels and holiday houses, affected all accommodation types and the strongest increase of 15% occurred in camp sites. Hotels had a turnover increase of 4.5%, within this four- and five-star hotels had respective increases of 20 and 33%. In the lasting upturn of domestic tourism a growing turnover of holiday vouchers also played a role: public accommodation establishments exchanged HUF 16.6 billion worth of vouchers, at current prices 47% more than a year before.

In 2007, altogether 7.4 million international and domestic guests spent 19.9 million nights at public accommodation establishments. After the stagnation of 2006, 2.6% more guests spent 1.1% more nights in that year. Thus the number of guests was higher than in preceding years; however, the number of tourist nights did not reach the peak of 2004. Hotels and boarding houses had increases of 2 as well as 0.8% in overnight stays, while camp sites had the first turnover increase of 5.7% following the post-2002 recession. Five- and four-star hotels had respective increases of 6 as well as 7%, only two-star hotels were affected by recession. Wellness hotels had an outstanding increase of 14% in overnight stays, which was fuelled by 17% higher domestic and 6% higher international demand.

In 2007, hotel occupancy rate was 50%, higher than in prior years and 2 percentage points more than in 2006. Occupancy rates kept growing in five-star units and reached 68%, those referring to four-star facilities essentially stagnated, but remained well above average (57%).

Public accommodation establishments had revenues of HUF 243.6 billion, 4.4% higher at current prices than the level of 2006. As accommodation services had a consumer price index of 105.7%, their revenues declined in real terms.
Accommodation service revenues have again constituted a growing part of the total of hotel revenues for two years, in 2007 had a share of 57% in total gross revenues. Catering revenues had a slowly declining share, reaching 24% in 2007, while other services accounted for 19%.

Public accommodation establishments had a bedplace-capacity growth of 1% on 2006 following a three-year recession and amounted to 319 thousand on 31 July 2007. While only hotels had continuous capacity increases among public accommodation establishments, in 2007 fewer hotel bedplaces were available compared to a year ago.

On 31 July 2007, 38,700 registered private accommodation providers had 223 thousand bedplaces. 4.4% less accommodation providers and 3.2% less beds were registered than a year before.

913 thousand guests spent 3.7 million nights at private accommodation establishments. Parallel to a slight capacity decrease, turnover grew dynamically, 27% more guests spent 21% more nights. Increasing guest numbers were more accentuated at private room-service, while growth in overnight stays primarily featured rural room-service.

Out of priority resort areas, 34% of guests and 31% of tourism nights were registered at Budapest-based public accommodation establishments. 17% of guests and 23% of guest nights were recorded in Balaton settlements reflecting a longer duration of stay characteristic to the resort area. Other priority resort areas had an 18%, other Hungarian areas had a 28% share in tourist traffic.

Nearly three fourths of private bedplaces were available at Lake Balaton. Rural bedplaces had a more even distribution: Lake Balaton had a share of 17%, Mátra-Bükk Resort Area 16%, Mecsek and Villány Resort Area had 5%.

### Table 12: Bedplace-capacity and guest turnover at public accommodation establishments, 2007

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Number of available bedplaces</th>
<th>Number of tourism nights</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>thou-</td>
<td>2006=</td>
</tr>
<tr>
<td></td>
<td>sand</td>
<td>100.0</td>
</tr>
<tr>
<td>Hotel</td>
<td>114.9</td>
<td>98.8</td>
</tr>
<tr>
<td>Boarding house</td>
<td>41.9</td>
<td>98.6</td>
</tr>
<tr>
<td>Tourist hostel</td>
<td>27.1</td>
<td>101.0</td>
</tr>
<tr>
<td>Youth hostel</td>
<td>18.8</td>
<td>88.5</td>
</tr>
<tr>
<td>Holiday house</td>
<td>22.8</td>
<td>101.4</td>
</tr>
<tr>
<td>Camp site</td>
<td>93.5</td>
<td>108.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>319.0</strong></td>
<td><strong>101.2</strong></td>
</tr>
</tbody>
</table>

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Catering units had a sales turnover of HUF 668 billion at current prices. Following a reduction of 3.9% in 2006, a nearly equal reduction of 3.6% occurred in 2007. Within this, commercial catering had a greater volume drop of 3.9%, while workplace catering declined by 1.5% over a year.

Similarly to the previous year, commercial catering had a share of 88%, while workplace catering had a share of 12%.

According to preliminary data food sales had a 69% share in catering turnover, representing a rise of nearly 2 percentage points compared to shares registered in prior years. Alcoholic beverages had a share of 12%, while alcohol free ones had a share of 11%.

Hotels and restaurants had a share of 3.1% among all employees, an employment growth of 5.8% occurred in this branch over a year. Over 2007, investments in this branch, generating a share of 1.5% in gross value added, grew well above the national average, by 9.5%, which anticipates a favourable outlook for the branch.
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Explanation of symbols

+ = Preliminary data.
– = Non-occurrence
. . = Not available.
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