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Explanation of symbols:

– = Non-occurrence.
.. = Not available.
x = Not applicable.

Notes:

The primary source of the data – mostly considered preliminary for 2011 – in the publication is the Hungarian Central Statistical Office, while international data are first of all from the database and publications of Eurostat. All other sources are indicated in footnotes at the place of occurrence.

Dear Reader

The Hungarian Central Statistical Office has been providing its readers with the publication series entitled Hungary already for 18 years with the purpose of informing the Parliament and the Government in line with Section 6, paragraph (1), article h) of Act XLVI of 1993 on Statistics on the socio-economic and demographic situation of the country.

This volume, entitled Hungary 2011,

- presents the major characteristics of the society, the demographic situation, the most important facts and trends in the labour market in 2011 and the changes in living conditions;
- provides a picture of the domestic and international macro-economic and financial trends, as well as of the performance of the principal branches in the national economy;
- gives a short review of the state of environment and the changes in the production and use of energy.

This year the last chapter in the volume is devoted to the following three themes:

- the impact of the international economic sentiment,
- trends in the manufacture of transport equipment in the world and in Hungary, and
- some important aspects of the cultural consumption of households.

Analyses focus on trends observed in 2011; however, the interpretation of 2011 data is promoted by a comparison with the recent past and an international outlook. In order to give an as nuanced picture of the society and economy in Hungary as possible, in addition to data of Hungarian and international statistical services, results of professional and scientific analyses of other organizations and research institutes have been used as well.

On the attached CD-ROM, the publication in PDF format, the figures in PDF and Excel format, as well as the recently published Statistical Pocket-book of Hungary, 2011 in PDF and Excel format are available.

Since the publication aimed at presenting year 2011, events, processes and data of the current year (2012) are not included in this analysis. Those interested in the most recent data are encouraged to consult publications and tables downloadable from the renewed website of HCSO (www.ksh.hu), as well as the dissemination database allowing for downloads according to users' needs.

I do hope that the volume Hungary 2011, similarly to our other publications, will provide a useful basis both for decision-makers and the citizens interested in socio-economic processes to assess the state of the country.

Dr. Gabriella Vukovich
President

1. Population, labour market conditions, education

Population

• According to preliminary results of the **census** in October 2011, the population number of the country was 9,982 thousand, 216 thousand fewer than a decade earlier. The population of the country has been continuously declining for three decades, and, since the latest observations, the pace of decrease has further accelerated, which has been somewhat restrained by the positive balance of international migration.

• Compared to the census ten years ago, the proportion of people living in villages fell, that of inhabitants of towns slightly rose, while the proportion of the population in the capital did not essentially change. The population number diminished in each **area** of the country except for Pest and Győr-Moson-Sopron counties.

• As a consequence of the measures on the restrictions of child-care allowance and child-care benefit, the **number of live births** has been decreasing again since 2009. The only change brought by the recent years in basic demographic trends was that along with the lessening number of live births the number of **deaths** fell as well. Over the year, 88,050 children were born and 128,700 people deceased. This number of births, low in international comparison as well, hit a new low, while the number of deaths fell below 130 thousand for the first time after 37 years.

• The **total fertility rate** showing the natural reproduction of the population sank to 1.24 in 2011, which was below both the level of 2.1, ensuring the reproduction of generations and the EU average of around 1.6. Although the size of children's generations is 25–40% smaller than that of the parents' generations nearly all over Europe, the indicator in our country differs even from the one in our closer environment, in the Visegrád countries. This process is the result of numerous socio-economic problems, which were remedied the most successfully by the social policy in Ireland and France up to now. In Hungary, a new personal income tax system was introduced in 2011 in order to promote the willingness to have and raise children. The sensitive nature of the issue is shown by the fact that, in case of negative changes, the number of births dwindles rapidly, while the positive changes in the family policy take effect on having children only slowly.

• The possibilities of young people for learning, having a job and starting life, as well as their changing preferences gradually transformed the patterns of starting a family and **having children**. All these can be traced in the change of demographic and other social indicators. Most of the couples plan to have their first child after having created safe living conditions. Although few young people imagine their lives without children, and most people even wish to have more than one child, due to the delayed fertility, families are smaller and fewer children are born on the whole. In 2011, fertility decreased among women younger than 35 years of age, while it increased among women older than that, but this growth did not compensate the fall in the number of births among

the more fertile age-groups. Due to the low and diminishing number of births, the demographic disequilibrium keeps on deteriorating.

• The decreasing number of births and the aging population make the sustainability of education and social and health-care system more difficult. The most urgent challenge is the sustainability of the pension scheme, since the more populous generation born in the 1950s will approach retirement age in the near future. The decrease in the number of people of active age means a narrowing labour force potential and a weaker ability of the society to support its members at the same time. This process is shown by the **aging index** over a very short period as well: on 1st January 2012, the number of elderly people per 100 children was nearly 117, while it had been 115 a year earlier.

Labour market conditions

• **The labour market situation** is characterized by a low employment level, hardly changed since the last third of the 1990s, as well as by high unemployment and inactivity. Employment, already low anyway declined further over the years of the crisis, it was stagnant in 2010, and 2011 was the first year when a slight improvement occurred. The number of unemployed people, following the rise in the former years, diminished by 1.5% in 2011, and the population inactive in economic terms narrowed.

• In 2011 the headcount in the **private sector** grew by 1.3%, while that of employees in **budgetary institutions** dropped by 4.9%.

• The fact that **atypical forms of employment** have not become general yet also contributes to the low level of employment. The role of atypical, and within that, of part-time employment strengthened somewhat in the years of the crisis, resulting partly from the more frequent fixed-term jobs.

• The employment rate of **young people with a university or college degree** fell considerably in the last ten years, in which, naturally, the crisis played a role as well, but this process dates back to earlier times. The risk of unemployment began to grow at the beginning of the last decade, and it has hardly changed since 2009. In addition to other educational levels, the unemployment of career starters with a university or college degree in the age-group 20-24 years is high as well.

Education

• The **educational attainment** of the population has improved further; the proportion of those with G.C.S.E. or with tertiary educational attainment has gone up, while that of people having completed 8 grades of primary school at most has diminished.

• Along with the cut in the number of **kindergartens,** the number of places in kindergartens and enrolled children increased in the last years. Significant regional differences can be observed in the provision system.

• In line with demographic processes, the number of **primary school students** is shrinking, among them the proportion of those receiving day-care provision and catering grew considerably between 2005 and 2011. Due to the longer duration of education, the number of secondary school students did not diminish until the end of the last decade despite the fall in the number of children. However, by 2011, the decline in the number of children could be observed in these schools as well. The proportion of students in apprentice schools has been rising again since 2007; that of students in secondary grammar schools has been stagnant, while the popularity of secondary vocational schools has declined further

to a small extent, although the majority of students still choose this type of secondary school.

• The upsurge in the number of students in **tertiary education** stopped in the second half of the last decade, and, with some fluctuation, it has been stagnant since that time (in 2011, it went up slightly). The slowdown of the expansion of tertiary education resulted from the significant drop in the number of applicants between 2005 and 2008. In part-time education, the number of students has already been falling since 2005. The number of students having completed tertiary education increased at a lower pace than that of those admitted; one of the reasons for that is the lack of state examination in foreign language(s) necessary for obtaining a degree.

• The structure of tertiary education by **fields of training** did not remain unchanged in the past years; the weight of technological and natural sciences, health, as well as services strengthened, while the proportion of teacher training and agricultural science diminished.

Summary data

Denomination	2009	2010	2011
Population number, thousand persons[a)]	10,014	9,986	9,962
Distribution of population by main age groups, %			
0–14	15	15	15
15–64	69	69	69
65–	17	17	17
Live births per thousand inhabitants	9.6	9.0	8.8
Deaths per thousand inhabitants	13.0	13.0	12.9
Natural increase, decrease (–) per thousand inhabitants	–3.4	–4.0	–4.1
Employment rate, %[b)]	55.4	55.4	55.8
Unemployment rate, %[b)]	10.1	11.2	11.0
Number of students having passed vocational examination, total	51,085	52,597	55,888
in apprentice schools	22,319	23,507	23,812
in secondary vocational schools	28,766	29,090	32,076
Students in full-time tertiary education as a percentage of population aged 18–22 years	38.3	38.2	38.9

a) 31st December.
b) Within the population aged 15–64 years.

Demographic snapshot

The population number sank below ten million

In October 2011, in line with the EU legislation and taking into consideration national traditions, the population of the country was enumerated already for the fifteenth time in the history of **censuses** in Hungary. According to preliminary data[1], 9 million 982 thousand people live on the 93 thousand square kilometres territory of the country, 216 thousand – the population number of a city – fewer than ten years earlier. The decrease in the number of the population lasting for three decades accelerated further, and only less than a half of this was compensated by the positive balance of international migration. By 2011, the population number sank below ten million, to the level observed in the 1960s.

Since the previous census, the population number has declined in almost each area of the country except for Pest and Győr-Moson-Sopron counties. Out of these two latter counties, Pest county is outstanding in respect of population attraction (12.8%) due to the direct boundary with the capital city. The attractiveness of Győr-Moson-Sopron county is more moderate (2.4%). Among counties,

Figure 1.1

Resident population of Hungary
(on the reference date of the census)

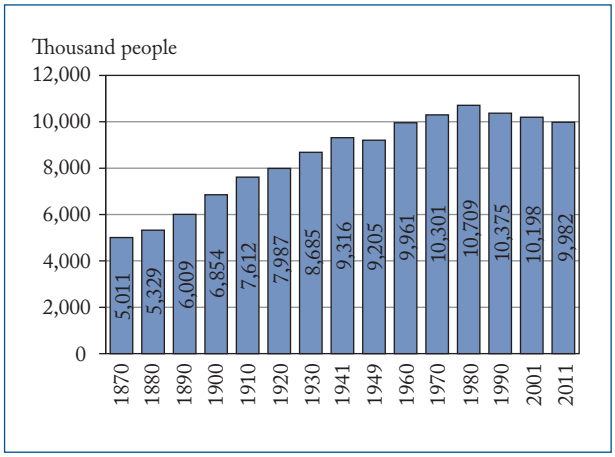
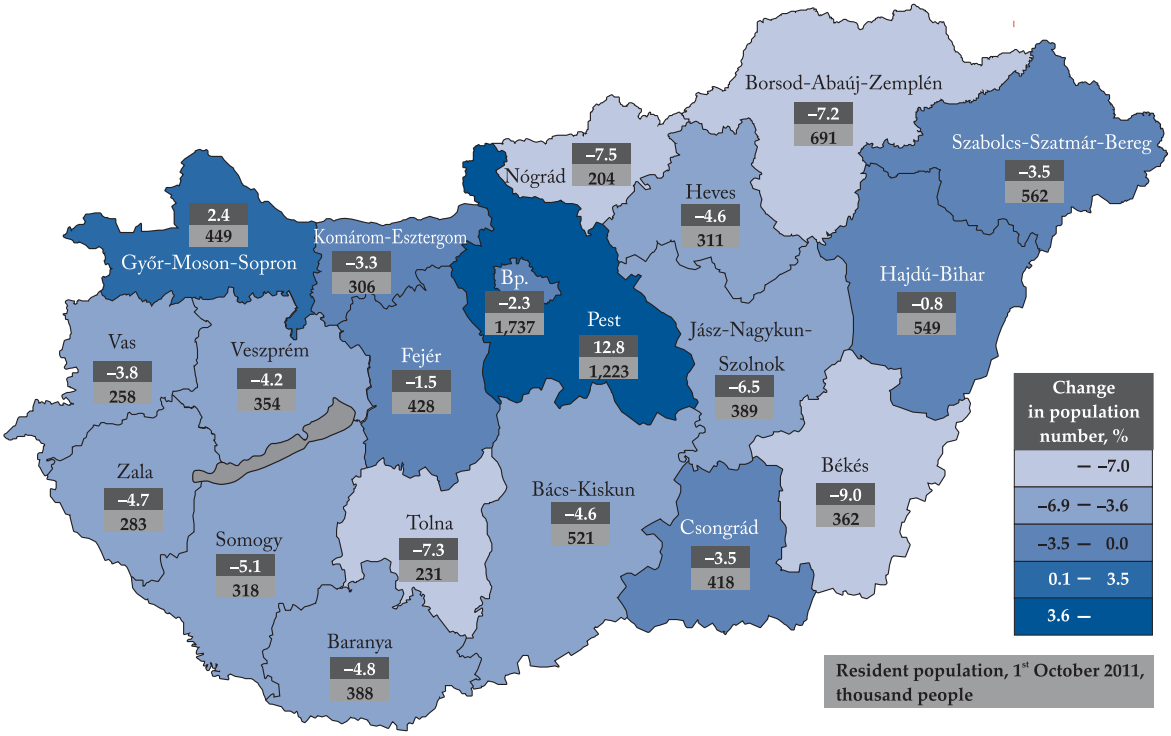


Figure 1.2

Number and change of resident population by counties between 1st February 2001 and 1st October 2011



[1] Based on information prior to detailed processing.

the population number of Békés county diminished to the largest extent (by 9.0%).

In 2010, among the 27 member states of the European Union, the population number dwindled in six countries as a result of the balance of natural demographic processes and international migration. Out of them, five countries accessed the EU in 2004 or later, and, among old member states, only Germany belonged here. All of them are characterized by the natural decrease in the population, which is strengthened further by the negative international net migration in Lithuania, Latvia and Bulgaria, while this process is moderated by the positive balance of international migration in Germany and Hungary.

The proportion of urban population is the highest in Central Hungary

In Hungary, the urbanization process accelerated significantly after the change of regime, but it did not automatically mean the qualitative improvement of urbanization, i.e. modernization. The system of

Stages of urbanization

The migration of the population between different types of settlements – towns and villages – shows a specific cyclical model. The censuses after the 1960s drew the attention to the fact that the population of most cities in developed countries does not rise further, on the contrary, it is decreasing in some places. After about two decades, a stronger urbanization was observed again in North America, Western Europe and Japan[2]; the theory of the cyclical model of urbanization was based on this observation.

The four stages of urbanization[3] are: urbanization, suburbanization, de-urbanization and re-urbanization. The first stage is the urban explosion, which is connected to the industrial revolution, the development of the modern economy. This started at the turn of the 18th and 19th century in Western Europe, later to the east of it and in the 1870s–1880s in Hungary. The second stage is the so-called relative de-concentration or suburbanization, which means the out-migration from towns and cities to their outskirts or the neighbouring agglomerations. Its precondition is the rapid and flexible transport system, which allows the new lifestyle resulting from moving out. Suburbanization refers first of all to the moving out of more well-to-do people living in city centres to the neighbouring areas with detached houses, but, for example in Hungary, other strata were concerned as well. Suburbanization, involving the stop in the increase of urban population or the decrease of it, started after the 2nd World War in Western Europe and from the 1970s in the Eastern European countries. The third and the fourth stages (de-urbanization means the increase in the proportion of rural and the decrease in that of urban population, while re-urbanization is the flow of the population and enterprises in better financial situation back to the city centres) appeared in Hungary together with the second stage. The reasons for this are the delayed development of towns, the specific town planning development in the socialist era, then, the relatively rapid socio-economic changes accompanying the change of regime and, as a result, the amplification of social inequalities.

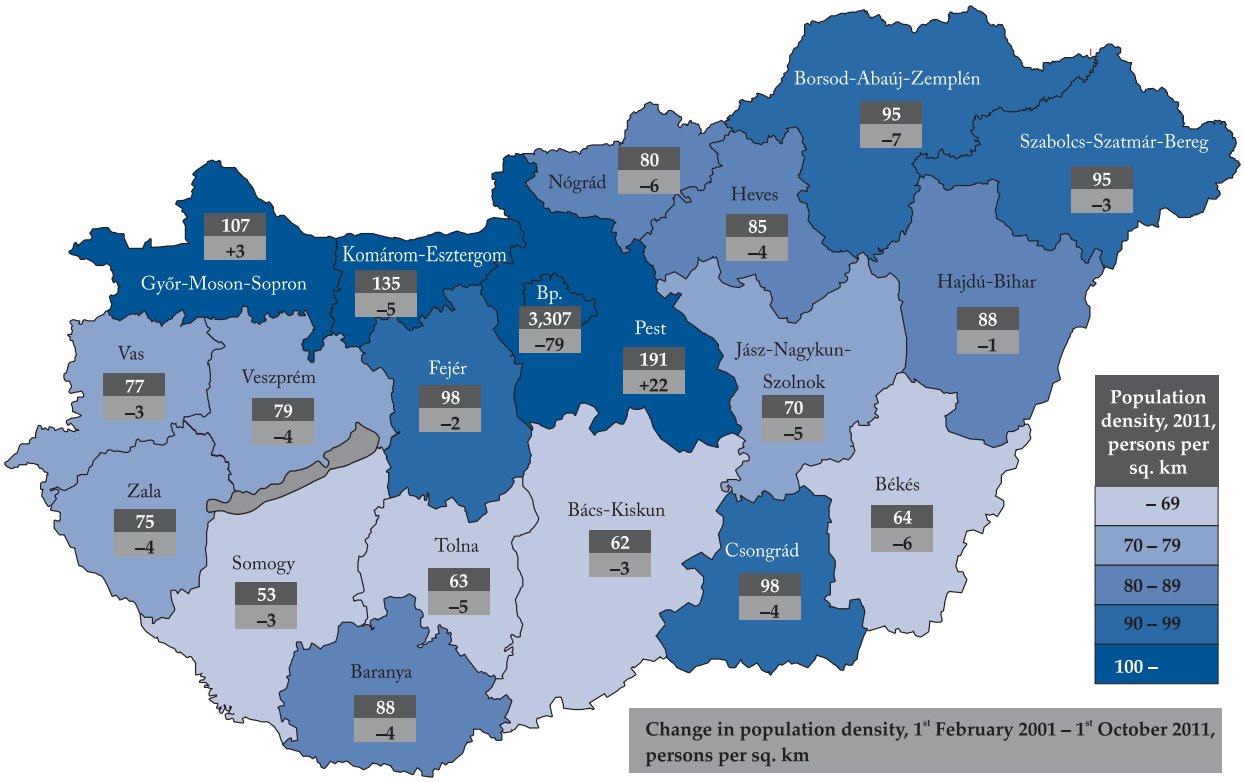
In the last 10–15 years, not only did the population of rural settlements grow in the direct neighbourhood of large towns, but the decline in the population of the wider catchment area also stopped. The composition of out-migrants is quite heterogeneous. Among them there are people who chose deliberately the better life quality and also those who made their decision under structural pressures. The middle and the marginalized strata mainly look for lower property prices and try to avoid high overhead costs. The agglomeration of Budapest is the largest, consisting of 81 settlements. However, the prestige of the settlements is very different, which is well reflected in property prices. The western part of the ring road is rather chosen by people with higher income, while the eastern part of it by the lower and middle or poorer strata. The poorest people do not move to the agglomeration but back to the settlements where, in the 1950s and 1960s, their families moved out from.

[2] *Source:* Andorka Rudolf 2006. Bevezetés a szociológiába (Introduction to sociology), Osiris, Budapest.

[3] *Source:* Enyedi György 1984. Az urbanizációs ciklus és a magyar településhálózat átalakulása (Cycle of urbanization and the transformation of the settlement network in Hungary), Akadémiai Kiadó, Budapest.

Figure 1.3

Population density and its change by counties between 1st February 2001 and 1st October 2011



conditions for receiving town rank became less strict than earlier, which, in itself, increased the proportion of urban population. In Hungary, the number of settlements of town rank is 328 at present, while that of villages is 2,826. However, the majority of new towns do not have a central function through which they could exert a perceptible influence on the region and their infrastructure, socio-economic and income conditions hardly differ from those in villages.

The most urbanized region is Central Hungary. 17.4% of the population lives in the capital, 52.1% in other towns and 30.5% in villages. The distribution of the population among the different types of settlements changed so far as the proportion of people living in villages decreased, that of those in towns grew slightly, while the proportion of the population living in the capital city did not essentially change.

The population decrease affected each type of settlement, but it was stronger in villages. Natural population decrease played a basic role in this fall; however, it was compensated by the positive balance of international migration more strongly than in towns. In this latter case, the outstanding immigration surplus in the villages of Pest county had a significant role. The most attractive region of the country is Central Hungary, where the proportion of the population to the total population went up from 28.1% to 29.6% between the two censuses.

Population density – the number of population per square km – lessened from 110 ten years ago to 107, and this indicator is of a medium level in EU comparison. The very high population density of Budapest cannot be compared with that of the counties. The most sparsely populated counties of Hungary are Somogy, Bács-Kiskun, Tolna and Békés, while the most densely populated ones are Pest, Komárom-Esztergom and Győr-Moson-Sopron counties. The indicator of Pest county is much above the average, while in Somogy county it is hardly more than one-fourth of the one in Pest county.

Censuses

A census is a historical snapshot of a given era and forms a basis for economic, health, educational, social and cultural developments. This is the only method which allows obtaining a detailed picture of the people and the dwellings in the country, and, moreover, in the deepest possible regional breakdown.

In Hungary, the first full-scope population survey in the present-day sense was ordered by Maria Theresa 28 years after the first European census, and it took place between 1784 and 1787. The first Hungarian census conducted by the official statistical service was organized in 1869, and has been generally organized in every ten years since that time. The results of the 1920 census allowed not only obtaining information on the number and composition of the population and the dwelling stock but assessing exactly the losses of the 1st World War and the conditions after Trianon as well. During the 1930 census, the first attempts at the mechanization of data processing were made. The first census after the 2nd World War, was held in Hungary in 1949. The reason for advancing the census, originally planned for 1950, was that in addition to the assessment of losses of the war, only estimations were available about the very significant migration (caused by forced deportations and voluntary population movements together). The data of the censuses in 1960 and later have already been processed electronically. By the end of the 1980s, the roots of the economic and political change of regime were formed, and the programme of the 1990 census reflected the special features of this transition era and the connected social demands. The novelty of the 2011 census was that it was for the first time possible to choose among three opportunities, i.e. the online completion of the internet questionnaire and the self completion or the traditional, interview-based completion of paper questionnaires. The online completion proved to be popular with its proportion of 18.6%.

The natural decrease of the population was somewhat mitigated by international migration processes

Hungary is a country with aging and decreasing population, where fertility, meaning a natural reproduction, does not reach permanently the level of replacement. This is high in international comparison and is accompanied by a mortality which is improving only very slowly. These processes are decisively influenced by the aging age-composition of the population, the lifestyle, as well as the change in the value system worsened by the mortality of middle-aged men, which is high in international comparison as well, although improving. Natural decrease is moderated by international migration processes.

In the Europe of the early 1980s, it was considered a unique phenomenon if the number of newborn children over the year was fewer than the number of deaths. However, it is worth mentioning as well that the low number of births in 1981 was more than one and a half times as many as the number in 2011. As the balance of births and deaths, the population number fell by 916 thousand from the beginning of the 1980s until these days. International migration lessened natural decrease by one-fifth.

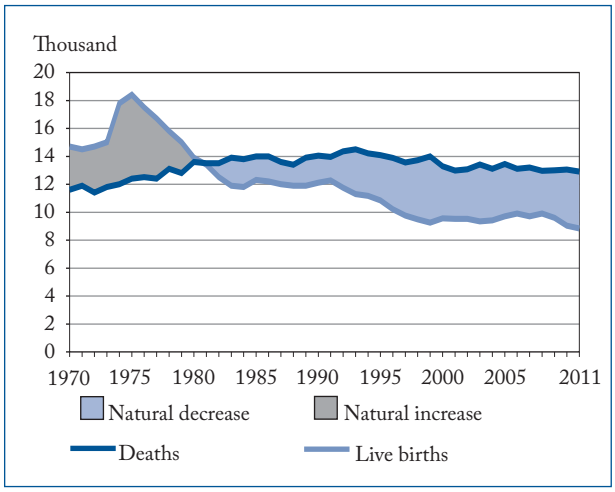
In 2011, the only change in basic demographic trends was that, along with the declining number of births, the number of deaths fell as well. However, the natural decrease of the population, compensated by more than 40% by the positive balance of international migration, accelerated.

Low and decreasing number of births – slightly improving but still high mortality

The change in the number of births in the last six decades was essentially determined by the 193–223 thousand births in the years of 1953–1956 (in the 'Ratkó era') and by the 178–194 thousand births in the second half of the 1970s. This high number did not appear again in the years around the turn of the millennium, since generations born in the abovementioned eras did not want to have near as many children as their parents did. In this, the postponement of age of motherhood plays a

Figure 1.4

Natural demographic processes



significant role, as a result of which the actual number of children is often lower than the planned number. The number of **births** fell below 100 thousand in 1998 for the first time, and it has always been below this level since then. Following the fluctuation and the low-level stagnation after the turn of the millennium, a drop occurred in 2010 and 2011. Family planning decisions were unambiguously negatively influenced by the deteriorating living standards resulting from the crisis. The positive family policies could not counterbalance this, either. According to preliminary, partly estimated data, 88,050 children were born in 2011, 2,285 fewer than in the previous year and fewer than the half of the high generation numbers in the 1970s. Number of **deaths,** declining in the past one and a half decades continued to decrease again in 2011, following a stop in the last few years. 128,700 people deceased over the year, 1,756 fewer than a year ago. The birth rate has been around 9–10 per mille for one and a half decades, while the death rate has varied between 13 and 14 per mille for more than three decades. The only change in the birth and the death rates in 2011 was that the birth rate, already low in international comparison, continued to fall, while the death rate reached again for the first time the level three decades earlier (12.9 per mille). The mortality of men remained unchanged or lessened in each age-group, and within this, the improvement is the most spectacular in the age-group 35–44.

Infant mortality fell to the lowest level in our demographic history so far; in 2011, out of ten thousand newborn children, 49 deceased before one year of age. Based on this indicator, Hungary belongs to the lower middle rank of the EU.

Decreasing fertility – European snapshot

Fertility is one of the most important indicators of demographic processes. In the history of fertility in Hungary over the past 50 years, the natural reproduction of the population was ensured only in the mid-1970s. The fertility rate exceeded the level of 2.0 only in a few years, between 1967 and 1969 and between 1974 and 1979. **The total fertility rate**[4], low in international comparison, has been declining again since 2009, and it was 1.24 in 2011. The EU average is around 1.6, and within this, the level of population replacement is approached only in Ireland and France.[5] Apart from these two countries, fertility in the EU is the highest in the United Kingdom and in the Scandinavian countries, while it is the lowest in Latvia, Hungary and Portugal. Fertility rate is lower in Southern, Eastern and Central Europe than in Northern and Western Europe.

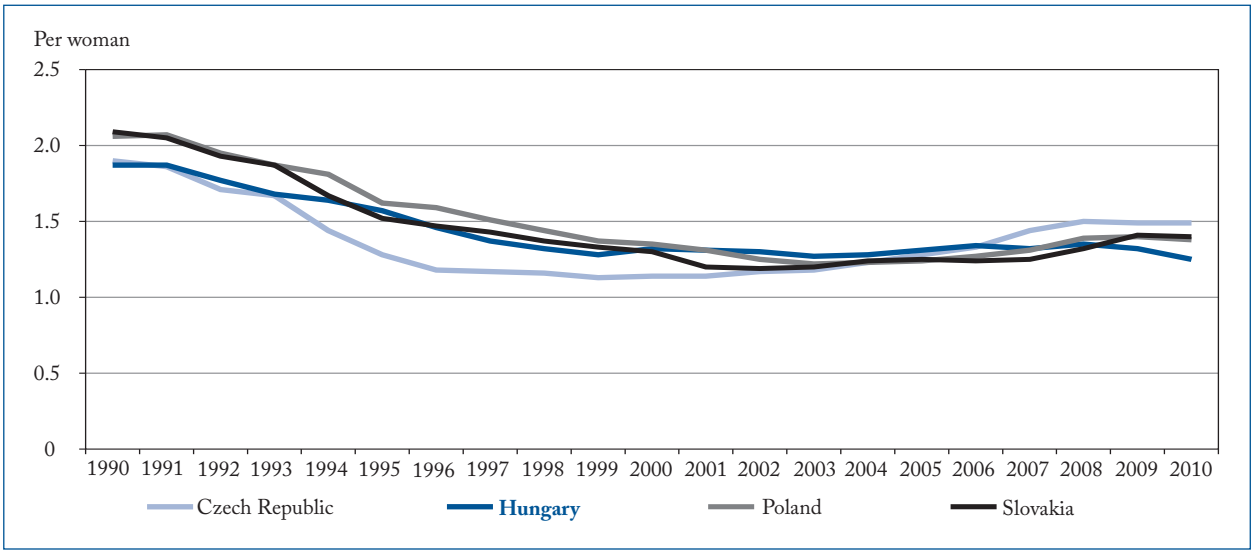
From the 1990s until the turn of the millennium, there was a significant drop in fertility in each Visegrád country, while, except for Hungary, a rise has been observed since that time. The largest growth occurred in the Czech Republic and the lowest in Poland. In Hungary, not only did the growth fail to follow, but in the last years, even stagnation changed to a decrease.

In most European countries, the number of the future (child) generations is 25–40% lower than that of their parents, a problem that could be remedied to some extent only in Ireland and France. This process is the source of numerous new socio-economic problems.

[4] Total fertility rate expresses how many children a female would give birth to during her lifetime, if the birth frequency by age of the given year prevailed.
[5] The natural reproduction of the population would be ensured, if hundred women gave births to 210 children on the average.

Figure 1.5

Total fertility rate in the Visegrád countries



Women have children at a higher and higher age

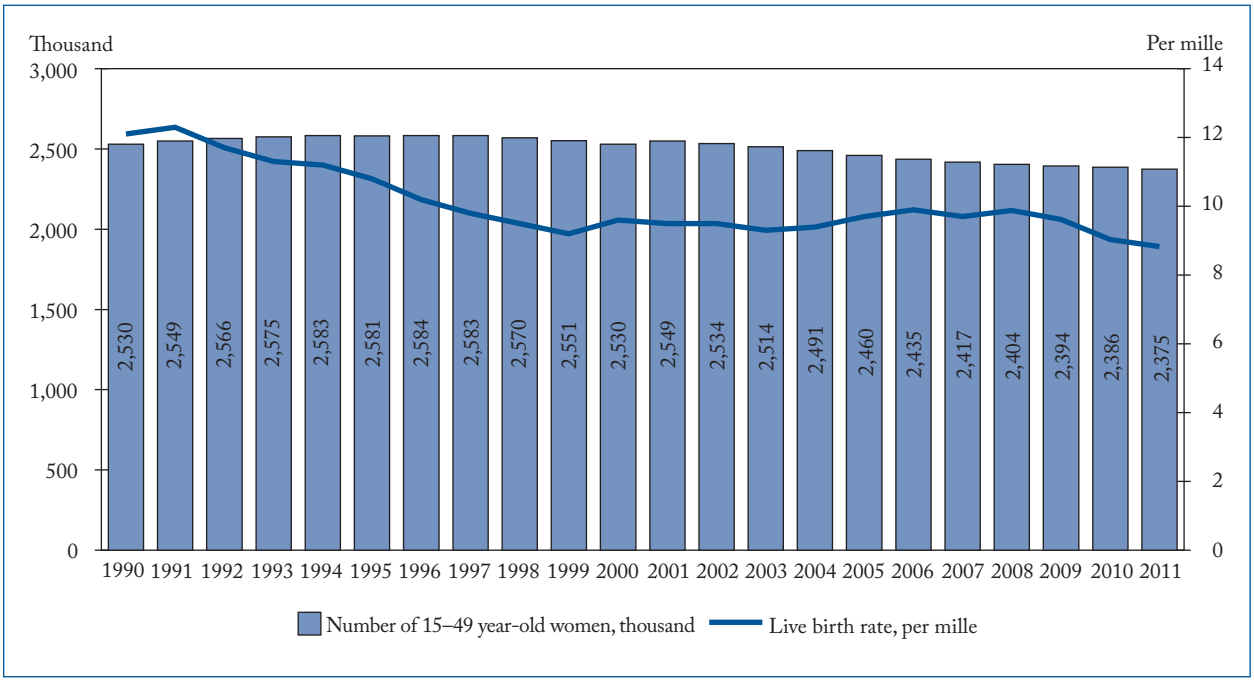
The size of young generations, their proportion to the population, their objectives, opportunities and ideas influence decisively the future changes in the population number. The new opportunities of learning, having a job and 'starting life' after the change of regime transformed the society's way of thinking about the frames of cohabitation, about having children and many other issues.

The fall in the number of births is not a specific feature of Hungary, but a process influenced by historical and social factors. The fertility rate, still high in Europe at the turn of the 20th century, fell to the half or one-third (1.6–2.1) in many countries by the 1930s, and then, after the 2nd World War, went up again (2.3–2.8) due to the baby-boom in Western Europe lasting until the mid-1960s. In Eastern Europe, for historical and social reasons, this boom failed to occur, and the repeated turn in trend started in the second half of the 1950s, while it started in the mid-1960s in Western Europe. The indicator fell to between 2.1 and 2.2 by the mid-1970s all over Europe, and later it sank lastingly to a level around 1.2–2.0. By the practice of birth control having spread since the 1960s, in the developed countries, having children is mainly a conscious decision. Many attempts were made to slow down or to turn the decrease of fertility. First unpaid and then paid maternity leave was introduced, which, with different duration and conditions, is in force in each country of the continent, and its amount is between 55% and 100% of the prevailing average earnings. The first allowances and benefits helping the willingness to have children and the financial situation of families, and the family allowance were introduced later. The network of infant nurseries and kindergartens supporting the employment of women has been more significantly developed since the 1950s and 1960s. The new personal income tax system introduced in 2011 aims at encouraging people to have and raise children with a tax allowance depending on the number of children raised. The consolidated tax base can be reduced by HUF 62,500 in case of one or two and by HUF 206,250 in case of three or more dependants in each month and per dependant. Dependants are children, the foetus from the 91st day after conception as well as those receiving family allowance by own right or disability allowance.

Among factors influencing the number of births, when examining the stratum of **women in childbearing age,** it is striking that their number decreased by 6.1% between 1990 and 2011, while the number of live births fell by 30%. Within this period, the decline was especially considerable in the last two years.

Figure 1.6

Number of 15–49 year-old women and live birth rates in Hungary



According to surveys[6], the society is invariably child-loving, but, despite this, people have children at a higher and higher age, which points to the fact that families wait for the new family member in well-established and safer living conditions. Expressing this in numbers, mothers gave birth to their first child most frequently at the age of 20–24 years until the mid-1990s, then at the age of 25–29 years up to 2009 and at the age of 30–34 since 2010. However, the growth in the number of births in this age-group could compensate only 40% of the fall in births among younger women. The continuation of this trend is shown by the fact that in 2011, the frequency of births diminished in each age-group of women younger than 35, while it rose in the age-group 35–44. All these can be described with a single indicator, the mean age of women at childbirth as well, which grew from 25.7 years in 1990 to 29.8 years by 2010. Despite this growth, the indicator in Hungary is still below the European average.

When examining childbearing by the educational attainment of the mother, the year-on-year decline was the largest among those having completed apprentice or vocational school, but it was above the average among those having completed 8 grades of primary school at most as well, while an increase was observed in case of women with a college or university degree.

Both the number of marriages and the proportion of people living in marriage have been decreasing for years

The background of couple relationship and the habits of starting a family have undergone a change. The earlier close connection between marriages and having children has weakened, but the fertility of women living in marriage is still the double of those who are not married.

In 2011, the **proportion of extramarital births** grew from 40.8 to 42.3% year-on-year. In the background of this growth is that the number of births within marriages decreased above the average, while the number of extramarital births went up. The transformation in lifestyle is shown by the fact

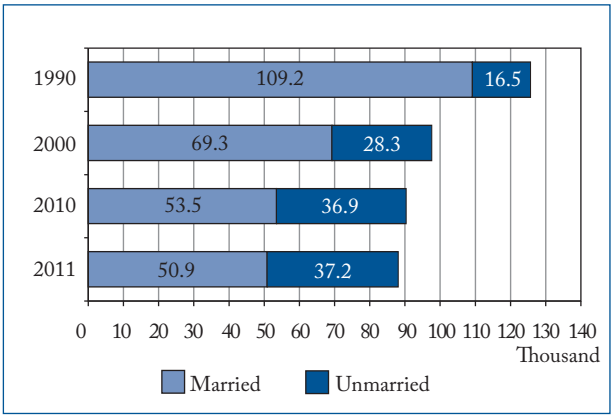
[6] Source: Demográfiai Portré 2009 (Demographic Portrait 2009), retrieved from the website of the Demographic Research Institute
According to the survey of the Eurobarometer, the 'ideal average number of children' is higher than the actual number. This is true for Hungary as well. *Source:* Special Eurobarometer 253., 2006

that this proportion has more than trebled since 1990, and has risen five and half times since 1980.

The former role of marriage in raising children has also diminished among young people, since the willingness of married women younger than 35 years of age to have children lessened, while among 35–44 year-old women, a significant part of the surplus in the number of births was marital births. In international comparison, the proportion of extramarital births in Hungary is in the middle rank. In 2010, the proportion of extramarital births was the lowest in Greece (7.3%) and the highest in Estonia (59.1%), but it was quite high in the majority of the Scandinavian countries, in Bulgaria, France and Slovenia as well.

Figure 1.7

Live births by the marital status of the mother



In public opinion in Hungary, marriage is invariably the most proper form of cohabitation, but, in parallel with this, cohabitation before marriage became accepted as well. The number of **marriages** in Hungary has seen a decreasing trend for a long time. In the years after the turn of the millennium, the number of new marriages was 44–46 thousand, and this low number continued to fall in the last three years to 36–37 thousand. In 2011, 35,750 marriages were registered, slightly more than a year before. Within this, the number of marriages rose only among the 35–49 year-old population. Women get married most frequently in the second half of their twenties, while men in their thirties.

Registered cohabiting partnerships[7] have been introduced on 1st July 2009. In the second half of 2009, 67, while in 2010, 80 such partnerships were recorded in the registers. Last year the number of newly registered cohabiting partnerships was nearly halved. The average age of starting the official procedure was 37.7 years in case of men and 34.2 years in case of women.

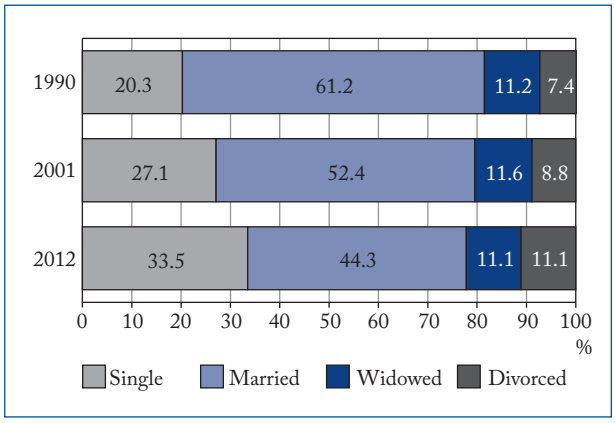
The dissolution of legally sound relationships can be expressed by the number and proportion of **divorces**. The number of divorces, stagnating at a high level in the last decade and then slightly increasing from 2004, diminished in the last few years, while the number of marriages and the proportion of those living in marriage dropped significantly as well. In 2011, 23,200 marriages were dissolved by courts, about 670 fewer than in 2010.

More and more singles

The long-lasting negative balance of marriages has modified the composition of the population by **marital status** significantly. The proportion of people living in marriage has decreased considerably since 1990 from 61.2% to 44.3%. In parallel with this, the share of single and divorced people has risen. Since 2004, married people have formed a minority in the population aged 15 years and older.

Figure 1.8

Distribution of the population aged 15 years and older by marital status, 1st January



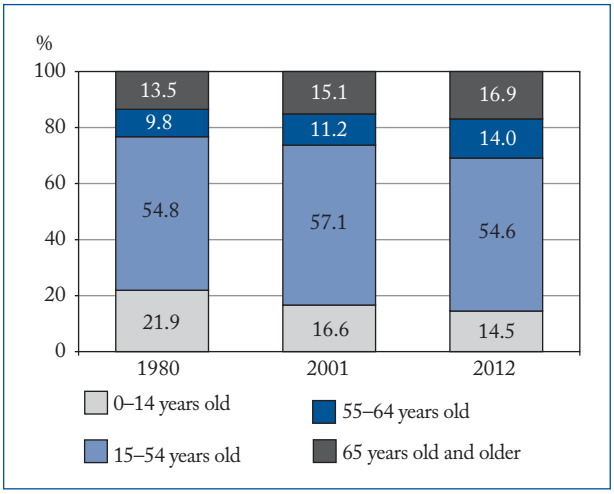
[7] Act XXIX of 2009 on Registered Partnerships and Related Legislation, which regulates the establishment and termination of same-sex partnerships, entered into force on 1st July 2009.

The largest problem of the aging society is sustainability

The change in the number of births and deaths, as well as the continuous rise of life expectancy transformed the age structure of the population significantly. In the last decades, the share of the elderly age groups continued to grow, while that of children fell, and since 2005, the proportion of 65-year-old or older people has always exceeded that of children.

Figure 1.9

Age composition of the population, 1st January



The unevenness of the age structure modified the general trends from time to time. In the retrospect of three decades, the share of children[8)] diminished from 21.9 to 14.5%, while there were significant changes at the top of the population pyramid as well, where the proportion of people aged 55 years and older grew from 23.3 to 30.9%. Within the more mature generations, the rise was especially considerable among the age-groups of high birth numbers born after the war and the so-called Ratkó generations born in the 1950s, i.e. the 55–64-year-olds, as well as among those aged 75 years or older.

Over six decades, the life expectancy at birth improved on the average by 11.2 years for men and 14.7 years for women, and in 2011 a newborn boy could expect to live 70.5 years, while a newborn girl 78.1 years. The improvement of life expectancy was not continuous at all; in case of men, since the 1960s there have been deteriorating and improving periods. The shock caused by the change of regime can be traced back until 1993, and since that time life expectancies at birth have been ameliorating. In respect of life expectancy at birth, Hungary is in the last third of the EU ranking in case of both sexes, and the lag behind the EU average is 6.4 years for men and 4.2 years for women.

Demographic changes raise the question of sustainability at the different levels of education, in the labour market and the social and health-care system. The greatest challenge at present is in the pension scheme, since the generation born in the 1950s will approach retirement age in the near future. One of the most sensitive problems of the smaller generations born around the turn of the millennium and later is how large the burden on people of economically active age as a result of the solidarity and cooperation between generations will be. The drop in the number of people of active age means a narrowing labour force potential and a weaker ability of the society to support its members as well. According to the **aging index,** i.e. the indicator showing the demographic disequilibrium, on 1st January 2012, the number of elderly, i.e. more than 65-year-old people per 100 children was nearly 117, as opposed to the 115 a year earlier. The dependency ratio of the elderly population, expressing the number of the old-age population as a percentage of the 15–64-year-olds, is 24.6%, which according to forecasts will have more than doubled by 2050. According to calculations, the indicator in Hungary will nearly equal the EU average by that time, though at present it is more unfavourable in the EU than in Hungary.

From the less developed regions the population migrated to the central and western regions

In 2011, the number of internal migrations was 461 thousand, 21% higher than in 2010. The number of permanent migrations was characterized by a

8) 0–14 year-olds.

slight reduction, while that of temporary migrations increased nearly 1.5-fold.

One of the determinant elements of migration processes in the earlier period was the out-migration from Budapest, which stopped in 2007, and since that time, the total net migration of the capital has been continuously positive. The population number of Budapest expanded by more than 7 thousand in 2011. The population in other towns shrank, while the out-migration from villages diminished significantly.

Over the year, net internal migration was positive in Central Hungary, as well as in Western and Central Transdanubia. The other regions suffered a net internal migration loss; the population-retaining capacity of Northern Hungary and Northern Great Plain having weakened the most.

The majority of immigrants are Hungarians having lived outside the borders

The most characteristic feature of immigration to our country is that immigrants are first of all citizens of the neighbouring countries who are ethnic Hungarians. Within the EU, Hungary belongs to the countries with low, but positive international net migration. In 2011, the population gain from international net migration slightly exceeded the one in the previous year (1.7 per mille). In the labour market of the country, immigrants frequently find jobs in fields with shortage of professionals, where the native population cannot or does not want to work. The loss of health professionals who take a job abroad is an increasingly serious problem for Hungary, and their replacement is a great burden on the Hungarian health-care system. In 2011, 1,901 highly qualified health professionals received a certificate notifying the intention to work abroad, their number rose by 7% year on year. Mainly physicians decide to take a job abroad, and the destination country is most frequently the United Kingdom or Germany. [9)]

On 1st January 2012, more than 200 thousand **foreign citizens resided** in Hungary, the overwhelming majority of them were Romanian, Ukrainian, Serbian and German. 2.1% of the population are foreigners. The proportion of foreign labour force is lower than in most of the other EU member states, they account for less than 4% of all employees. This proportion is nearly 15% in neighbouring Austria and over 5% in the Czech Republic and Slovakia. [10)]

Who can acquire Hungarian citizenship?

By Act XLIV of 2010, the regulation on Hungarian citizenship was amended. The Act introduced the simplified naturalization, allowing those with Hungarian ancestors to acquire Hungarian citizenship without having an address in Hungary.

Since the beginning of 2011 applicants who have a clean criminal record, whose naturalization does not violate the public security and national security of Hungary, whose ascendant was a Hungarian or who demonstrate the plausibility of their descent from Hungary and who provide proof of their knowledge of the Hungarian language, can be preferentially naturalized. The new regulation deleted the examination in basic constitutional studies among those who fall under preferential naturalization procedure, changed the way of determining the level of language skill, furthermore, there is no need to certify a registered address and subsistence in Hungary.

In 2011, 186,267 applications for simplified naturalization were received, and more than 94 thousand people took the citizenship oath over the year here and beyond the border. In 45% of the cases, the name was changed, if the application for naturalization was made with Hungarian forename, locality name, or by applying Hungarian spelling rules.

9) *Source:* Website of the Office of Health Authorisation and Administrative Procedures.
10) *Source:* World Migration Report 2010 – The Future of Migration: Building Capacities for Change, International Organization for Migration, Geneva 2010.

In 2010, 6,086 people acquired Hungarian citizenship, 4.9% more than in the previous year. Nearly half of the new citizens were 25–29 or 30–39 years old. As in previous years, the proportion of women is higher among them. A larger share (65%) of them were former Romanian citizens. On 1st January 2011, the new Act on **Hungarian Nationality**[11] about simplified naturalization came into force. Due to the changes in regulations, the number of those acquiring Hungarian citizenship went up significantly in 2011; among them, more than 20 thousand people have an address in Hungary. In 2011, 186,267 applications for simplified naturalization were received, citizenship oath was taken by nearly 100 thousand people within and beyond our borders over the year.

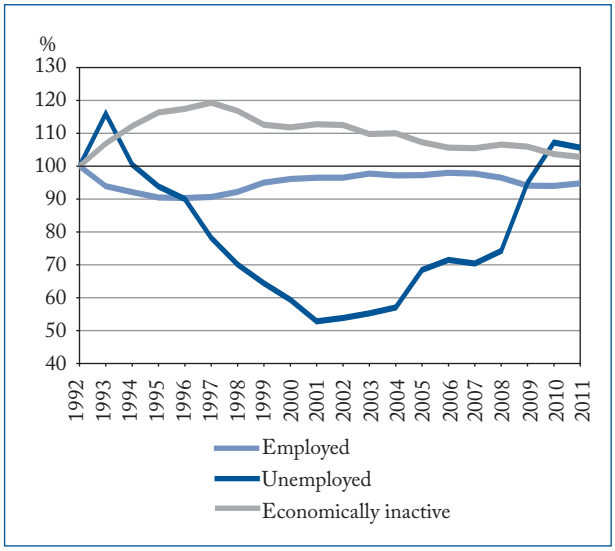
Labour market situation

The level of employment in Hungary is one of the lowest in the EU

One of the main characteristics of the labour market situation in Hungary is the low level of employment, which is, inter alia, an obstacle to a more rapid economic growth, as well as more stable state budget and income conditions. The low level of employment is coupled with high unemployment and inactivity. The long-lasting low employment, having hardly changed since 2000 is uncommon among the transition countries with similar historical traditions as well. The economic crisis, which evolved at the end of 2008, has amplified the negative processes engendered formerly. Countries handled the shocks on the labour market in different ways, but all these resulted in a decreasing employment and an increasing unemployment in other countries as well. In 2010, the signs of recovery already appeared, and in 2011 a slow reconstruction occurred. After the stagnation in the previous two years, the level of employment improved in our country along with the slight growth in the number of the 15–64-year-old population, while unemployment, following the upsurge in the former years, diminished somewhat and the population inactive in economic terms narrowed. It is remarkable that it was after 2009 that this stratum decreased for the first time so that the number of those appearing in the labour market increased the number of the unemployed and not that of the employed. The fall in the number of employed persons was mitigated mainly by the public work programme in 2010, although the number of people employed in this framework went down in 2011 year on year due to the transformation of the system.

Figure 1.10

Number of economically active and inactive population aged 15–64 years
(1992=100%)



In international comparison, the employment rate in Hungary is one of the lowest in the EU, and is coupled with an above-average unemployment rate; so, one of the 'Achilles' heels' of the Hungarian economy is the labour market. Among the 15–64 year-old population, 55.8% were employed in 2011. In employment, our backlog compared to the EU average has widened further since the turn of the millennium, and it has grown from 6–7 percentage points at the beginning of the 2000s to about 9 percentage points.

[11] Act LV of 1993 was amended by Act XLVI of 2010 which must be enforced since 2011. The rules of procedure for applying the Act are laid down in Government Decree N° 224/2010. (VIII. 4.).

High-level employment and social integration are the objectives

In the 1990s and also later, after the turn of the millennium, the economic results were achieved in the OECD member states by an average employment of 65% among the 15–64-year-old population. In the retrospect of ten years, employment rate improved in the majority of countries. Among countries at different economic stages, there are and there were some where the indicator was about 80%, while in others it is or it was roughly the half of that; it is traditionally the highest in Northern Europe and in Switzerland, while it is the lowest in Turkey, Italy and Hungary. In the course of the economic recession, mass dismissals were effectuated in most of the countries. In order to handle the problems of employment originating from the macroeconomic shock, developed countries applied different techniques for preserving the earlier level of employment, and among the forms of employment, atypical forms[12] became more significant, especially in Europe. The EU adopted a medium-term economic programme in 2010, the basis of which is knowledge, high-level employment and environment-friendly economy. Augmenting employment levels is supposed to be achieved by the more active involvement of women, young and elderly people in the labour market, a better labour market integration of immigrants as well as by the higher level of employment among people with low educational attainment. Hungary, in line with EU objectives, set the aim to raise the employment rate of the 20–64-year-old population to 75% by 2020. Last year, the employment rate of this age group was 60.7% in Hungary, slightly more than a year earlier.

The number of employed people is invariably below the one before the crisis

The long-lasting low employment rate, having hardly changed since 2000, shows the disequilibrium between the supply and demand sides of the labour market and the problems in its operation, as well as the weak labour absorption capacity of the economy. This process was formed by the shock of the change of regime, the inherited structure of economy, the external recession, the demographic processes and the intentions and concepts in economic policy. Among others, the longer duration of education, the retirement conditions in force, the less widespread atypical employment, as well as the difficulties of reconciliation between work and family responsibilities, such as child raising, nursing ill and elderly people etc., contribute to the low level of employment. Furthermore, public education, the state of the infrastructure and the costs imposed on labour are of decisive significance in respect of employment. The system of institutions, financial and social supports helping the withdrawal or absence from the labour market, which was established at the time of the change of regime, is relatively extensive and generous compared to the development level of the economy, and it does not encourage people to take an active role in the labour market. It has not been managed to essentially improve the employment situation for two decades; within this period, the importance of increasing employment and handling the inner structural failures of the labour market, in addition to the problem of unemployment, came into the limelight in the last few years. A clearly visible sign of the problems in the labour market is that, along with the decelerating but continuous rise in production, employment rate grew in the period of the boom between the two recessions, 1997 and 2007 by hardly 5 percentage points, and the major part of this rise took place between 1997 and 2000. According to calculations, 70% of the total growth observed over ten years was connected to the change of the workforce composition, while there was hardly any change within the different age groups and educational levels. This implies that even the slight increase was connected first of all to the rise in the educational level.[13]

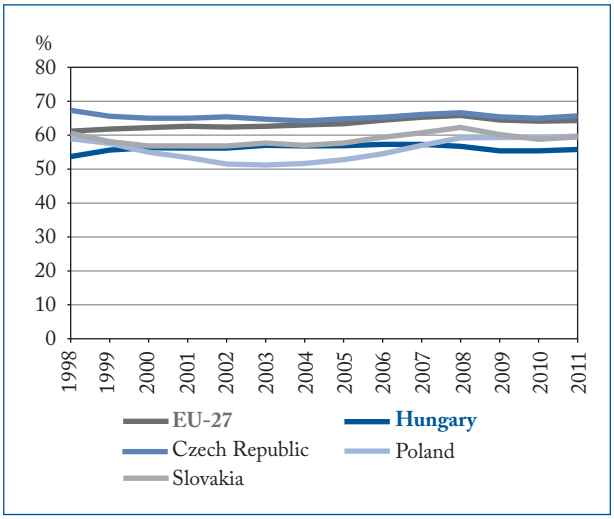
[12] *Source:* OECD Employment Outlook 2011, OECD Publishing 2011.

[13] *Source:* Nyugdíj, segély, közmunka – A foglalkoztatáspolitika két évtizede, 1990–2010 (Pension, support, public work. Two decades of Hungarian employment policy, 1990–2010), 2012, Budapest Institute, Budapest.

The situation temporarily deteriorated further due to the global crisis having broken out in the second half of 2008. From 2004, the growth of employment in Hungary was smaller than in the Visegrád countries in general, and the crisis affected our country more (Figure 1.11). On the supply side, our backlog can be connected to four groups: young people, people nearing retirement age, those with low educational attainment and women with small children.

Figure 1.11

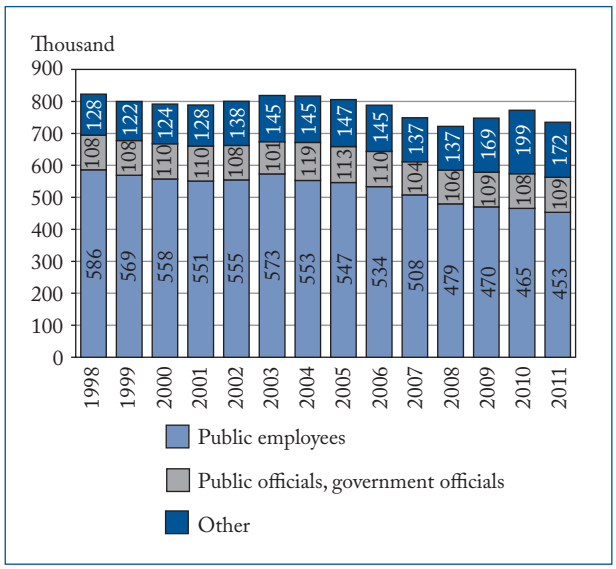
Employment rates in the Visegrád countries
(within the population aged 15–64 years)



The decline of employment in Hungary stopped by the end of 2010, and in 2011, the stagnation was followed by a slight increase. Despite the rise in the previous year, the number of employed people was still below the level before the crisis. Employment rate improved somewhat, and rose to 55.8% in the age group of 15–64, but it has not yet reached the level of 2000.

Figure 1.12

Headcount in the public sector



Following a decline in 2009, the headcount in the private sector stagnated in 2010, and then increased by 1.3% in 2011. In budgetary institutions, after the

Labour market solutions

Working time reduction and/or wage cut were less frequently applied by Hungarian corporations for moderating the negative effects of the crisis instead of more serious tools, such as mass dismissals. Employment policy was aimed at minimizing job losses, which involved the protection of employees in the public sector, the support of public work programmes, as well as programmes for job preservation and creation. All these left their mark on the real value of earnings as well: employees in the budgetary sector suffered a fall of 8.2% in real wages between 2008 and 2010, while in the private sector the purchasing power of earnings went up by 2.8%. On the whole, real wages fell by a half percent in the national economy. In 2011, employment was influenced mainly by the fall in the number of people employed in public work programmes and by the transformation of the unemployment benefit system; in addition to that, there were measures which influenced the labour market indirectly: the transformation of the tax system, the introduction of a new public work programme and the transformation of institutions.[14)]

14) *Source:* Munkaerőpiaci Tükör (The Hungarian Labour Market – Review and Analysis), 2011, Hungarian Academy of Sciences, Institute of Economics, Budapest.

Aspects of public employment

In order to alleviate the negative consequences of the crisis on the labour market, the public work system as one of the most determinant tools of employment policy was extended, which brought a change in the more effective employment of long-term unemployed people. Public workers perform local public tasks, such as afforestation, repair of water facilities, drainage of inland waters and precipitation, maintenance of agricultural dirt roads, public roads, motorways, railways, renovation of police stations, biomass Start work programme (replacing gas with alternative heating methods) and care of cultural heritage properties etc.[15)]

According to the data of institutional labour statistics, the average number of people in public work was 61 thousand in 2011, 30% fewer than in the previous year. The reduction resulted mainly from the transformation of the public work system. As opposed to the earlier years, the overwhelming majority of public workers worked part-time and only during a shorter period of the year.

Table 1.1

Public employment in Hungary

Year	Headcount	Of which:		Average monthly gross earnings of full-time employees, thousand HUF
		full-time	part-time	
	thousand people			
2007	29.8	19.3	10.4	68.1
2008	31.1	22.2	8.9	71.1
2009	61.0	42.9	18.1	73.0
2010	87.3	67.9	19.5	75.4
2011	60.9	20.3	40.6	78.4

Average monthly gross earnings of people working full-time equalled the minimum wage, HUF 78 thousand.

The demographic composition of those concerned is more unfavourable than that of long-term unemployed persons: the proportion of older people and of those with low educational attainment is higher. The nature of public work is in most cases physical activity, which does not require any qualification. According to surveys, the overwhelming majority of people who, after public employment, become inactive do not endeavour to do public work again in the near future, and they are not motivated by the supply and prestige of jobs in public employment or by the income which can be earned.[16)]

The proportion of public workers is the highest in Northern Great Plain and Central Transdanubia (25.0 and 28.0%, respectively), while it is the lowest in Central Hungary, Western Transdanubia and Southern Great Plain (6.4–6.6%). Among counties, Veszprém and Hajdú-Bihar counties were remarkable, where nearly one third of public workers were employed, while this proportion hardly exceeded 1% in Zala and Bács-Kiskun counties.[17)]

According to OECD, public work programmes are not the most adequate tools for alleviating poverty in general, but, at the time of a crisis, they may promote social inclusion, they provide income for the most destitute people, and in some countries, especially where there are no unemployment provisions, they have the role of insurance and social safety net as well. They can be applied as active employment policy measures only under special conditions. No country has exploited the

15) *Source:* A közfoglalkoztatás frissített adatai (Updated data of public employment), retrieved from the website of the Hungarian Government, 11th November 2011.
16) *Source:* Munkaerőpiaci Tükör (The Hungarian Labour Market – Review and Analysis), 2011, Hungarian Academy of Sciences, Institute of Economics, Budapest.
17) Data refer to June 2011.

opportunities offered by the programmes yet, and a priority task is to improve the qualification of the participants. In the absence of this, the chances for actual employment do not improve, and they can be a lasting but not cost-effective solution for a narrow stratum in a given period.[18)]

OECD member states spent[19)] on the average approximately 0.05% of their GDP on similar programmes, which improved the living conditions of 0.6% of the labour force. The success is basically influenced by the duration, type and timing of the job as well as the available earnings. The most significant programmes are operated in France, Ireland, Spain and Slovakia, and they affect 1.1–2.7% of the labour force. In 2000, Slovakia introduced the programme of employment for public benefit, which provided a nearly half-year-long unqualified job opportunity with a near minimum wage salary for about 12% of unemployed people. The actual projects were organized by local governments in the frame of a programme financed by the government, and the people concerned became eligible again for unemployment benefit after a three-month-long participation in the programme. The system introduced in March 2008 in the Czech Republic is remarkable as well; here tailor-made activity plans were prepared for those having received social support for at least six months, and a voluntary work of 20 hours per month was ordered.

3.6% and 3.3% growth in the previous two years, the headcount went down by 4.9% in 2011. In the headcount changes of budgetary institutions in the last three years, the changes of public employment, and in 2011 the measures aiming at cutting costs and downsizing which covered nearly all fields of public administration, played a significant role. 61.7% of employees are public employees, 14.9% are public or government officials, 8% are public workers and 15.4% are other employees (judges, prosecutors, armed forces and those falling under the Labour Code). The headcount of the non-profit sector – representing a relatively low proportion – expanded by 3.1%.

The negative shocks caused by the crisis, the economic slowdown and the tightening of the market had formerly first of all afflicted the sections construction and manufacturing, where predominantly men are employed. However, in 2011 the labour market position of men improved, while that of women did not essentially change. The employment rate of 15–64-year-old men was 61.2%, while that of women of the same age was 50.6%.

Last year, 6% of employed people were young (15–24 years old), while 81% of them belonged to the age group 25–54 (the best working age) and 13% to the older, 55–64-year-old generation. (Ten years before, these indicators were 11, 82 and 7%, respectively.) In the background of the less intensive labour market participation of young people is that the number of people in their generations is declining, they study for a longer time, it is more difficult for them to start a career and they become independent later. Elderly people work for a longer time, since retirement age is continuously raised, and for pensioners the rules of taking a job were modified as well.

Labour market selects essentially from the more qualified applicants. The chances of those with lower educational attainment to find a job are more limited than those of people with a university or college degree. In Hungary, the proportion of people with the lowest educational attainment to all employed decreased significantly in the last ten years: while in 2001 one in six, in 2011 one in ten employees belonged to this category. The proportion of people with secondary education slightly moderated, while that of those with tertiary education grew considerably, and last year one in four employed persons had a university or college degree.

Among people aged 25–64 years, employment rates are below the EU average in case of each educational attainment, the difference diminishing along with the rise of educational attainment. In 2011, the indicator of men approached the EU average in case of each level of educational attainment, while that of women improved only in case of those having a university or college degree.

[18)] *Source:* Közmunka finanszírozás (Public work financing), 2011, retrieved from the website of the Ministry for National Economy.
[19)] 2007.

Table 1.2

Employment rate of the population aged 25–64 years by educational attainment and sex, 2011

(%)

Educational attainment	Hungary			EU-27 average		
	men	women	together	men	women	together
8 grades of primary school or lower	46.5	31.5	37.7	64.5	43.3	53.5
Secondary education	71.8	60.0	66.3	79.3	66.7	73.2
University, college	84.7	75.2	79.3	87.4	80.4	83.7
Total	**70.4**	**57.6**	**63.9**	**77.5**	**64.1**	**70.8**

In Hungary, few employed people work a lot

According to data of the time use survey, in Hungary, the daily average time spent on income-generating work amounted to 374 minutes, i.e. 6 hours and 23 minutes in 2010, the same as a decade earlier. This is not surprising if we consider how few people worked at that time and work at present in Hungary, and, moreover, the number of unemployed people is 1.8 times as many as in 2000. At the turn of the millennium, only 56.0% of people in working age (15–64 years old) were employed, and ten years later this proportion was even lower, 55.4%. The overwhelming majority of employees (93.2%) work full-time, and both the supply of and the demand for part-time jobs is low.

After Romania and Poland, the number of hours spent on work is the highest in our country together with Bulgaria, Estonia and Slovenia. It also reveals much about the features of the working time regulations in Central and Eastern Europe that former socialist countries are in the first eight places of the ranking. Employees in the 12 new EU member states work 1,829 hours per year on the average, 143 hours more than citizens of the old member states. Several of the most competitive countries of Europe, e.g. Germany, Sweden and Denmark, are at the end of the second half of the ranking, in which widespread part-time employment plays a role. Furthermore, the annual number of working hours is not higher even in former socialist countries considered more successful than in Hungary.

Table 1.3

Estimated annual number of hours spent on work in the EU, 2010
(with reference to industrial sections)

Country	Annual number of hours spent on work	Country	Annual number of hours spent on work
Romania	1,864	Belgium	1,730
Poland	1,856	Spain	1,729
Bulgaria, Estonia, **Hungary,** Slovenia	1,848	Cyprus, Netherlands	1,725
Latvia, Lithuania	1,832	United Kingdom	1,705
Greece	1,816	Czech Republic	1,702
Luxembourg	1,800	Finland, Italy	1,695
Malta	1,784	Sweden	1,681
Ireland	1,778	Germany	1,659
Slovakia	1,757	Denmark	1,628
Austria	1,736	France	1,602
Portugal	1,734	**EU-27 average**	**1,715**

When comparing statutory working time, overtime, paid leaves and the number of public holidays with those in other countries, working time corresponds to the European trends. In respect of overtime, employers have a disproportionately wide room, while annual leave is relatively short, which cannot be compensated by the number of public holidays.[20)]

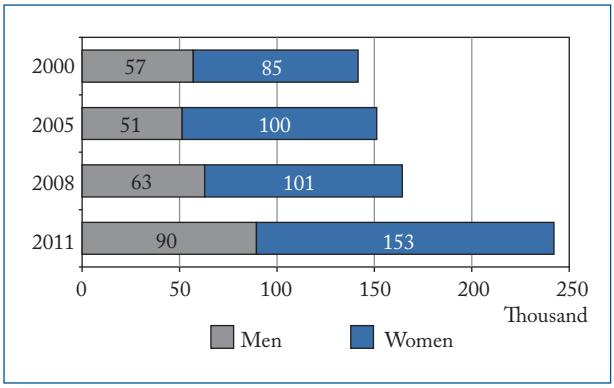
Atypical forms of employment are less widespread in Hungary

The socio-economic conditions of Hungary in the last more than two decades were not favourable to the wider spread of **atypical forms of employment,** such as fixed-term and part-time employment, telework, employment via temporary staffing agencies, self-employment etc. At the same time, as a result of the difficult situation caused by the economic crisis, employers employ workforce less dependent on place or company. On the whole, the number of people working in atypical forms of employment was more than 550 thousand in 2011. Employers tended to conclude more and more fixed-term contracts with employees, the proportion of people working with such contracts rose from 7.8 to 9.6% between 2008 and 2010, and then, it fell to 8.9% last year. (The EU average is 14.0%.)

Part-time employment is invariably at a low level, although its share rose from 4.3% to 6.4% in the last three years. Nevertheless, this proportion is among the lowest ones in the EU (the EU average is 18.8%). On the whole, the growth in the number of part-time employees between 2008 and 2011 could compensate only half of the fall in the number of full-time employees.

Figure 1.13

Number of part-time employees by sex
(within the population aged 15–64 years)



Less educated people (women having completed 0–7 grades of primary school), as well as working pensioners, child-care benefit-, unemployment benefit- and social support-recipients work more probably part-time. The proportion of part-time employment among those receiving transfers is many

What is not visible

The labour force survey covers a large part of actual employment, but the size of the hidden economy, and, within this, the black (or unreported) employment can only be concluded on the basis of collating the different information. According to research estimates, the proportion of black employment is 18%, which corresponds to nearly 660 thousand employees. The proportion of men is above average. Black employment concerns many people and is frequent in structural architecture, personal services, among drivers, machine operators and technicians.[21)] Unreported wage received directly into one's pocket is generally characteristic of those on the periphery of the labour market, the majority of whom have lower educational attainment, are young, casual workers or unemployed and have not been able to find a job for a longer time.

[20)] *Source:* Jorge Cabrita-Mannel Ortigao: Working time developments – 2010, European Foundation for the Improvement of Living Conditions, Dublin, 2011.

[21)] *Source:* Elek–Scharle–Szabó–Szabó: A feketefoglalkoztatás mértéke Magyarországon (Elek–Scharle–Szabó–Szabó: Reducing undeclared employment in Hungary), 2007. The first version of the study was prepared in the frame of the Prime Minister's Office and the World Bank project entitled Reducing undeclared employment and informal economy in Hungary.

times as much as the average. The costs of their employment are lower, and they are ready to take such jobs for significantly lower wages. According to estimations, at the smallest (5–10 employees) and medium-sized–large (50–300 employees) corporations, part-time employment is higher. Among economic sections, part-time employment is the most intensive in the fields of accommodation and food service activities, personal, business and financial services, as well as (private) health and private or general education. The high proportion of part-time employment in Hungarian-owned corporations which are smaller and/or are outside collective bargaining agreements indicates that these jobs are initiated by corporations rather than by employees.[22)]

More than 16% of Hungarian children live in jobless households

The deteriorating or uncertain prospects in employment, the tightening social and social insurance provisions, the rise of retirement age and the stricter rules of eligibility for disability benefits, as well as the transformation of unemployment benefit system encouraged non-employed people to take a more active role in the labour market. Active employment policy measures – jobseeking consultation, public purpose employment, training programmes, employment support programmes etc. – enable to support those who lost their jobs and dropped out of the labour market and to help them find a permanent job, thus improving their opportunities for employment. The effective operation of the system may enhance the growth of employment, and, at the same time, reduce the disadvantages of our country. Otherwise, it will divert financial and human resources from other activities having a larger social benefit. In international comparison, in respect of both GDP-proportionate expenditures and complex labour market programmes, Hungary is in the lower middle-rank, much below the OECD-average, but precedes the majority of the Anglo-Saxon countries, i.e. the United Kingdom, the United States and Australia.[23]After the crisis, the number and proportion of unemployed people increased to an extent which has been unknown since the beginning or middle of the 1990s. In the last three years, their number went up by nearly 140 thousand, and in 2011, the average number of unemployed people according to the definition of the International Labour Organization (ILO)[24)] was 468 thousand. The unemployment rate rose over this period by 3.1 percentage points to 11.0%.

Work, knowledge, opportunities

Starting production on new technological bases and in new structure, which demands a workforce qualified according to the new conditions, might open up a way out from the crisis. This process can be tracked well in the course of the market economy transition in Hungary, when, similarly to other former socialist countries, uneducated people dropped out of employment to a significant extent.[25)] Their lag in employment kept rising in the last one and a half decades, while their disadvantage in wages nearly doubled compared to the level before the change of regime. Job losses due to the liquidation or rapid privatization of state companies during the transformational decline contributed to the soaring unemployment and economic inactivity for many years, while the considerably lower reservation wages in the private sector strongly restrained the possibilities of people with low productivity to become employed again. Low reservation wages were parallel to relatively high unemployment income supports and a narrow range of employment promoting supports.

22) *Source:* Nyugdíj, segély, közmunka – A foglalkoztatáspolitika két évtizede, 1990–2010 (Pension, support, public work. Two decades of Hungarian employment policy, 1990–2010), 2012, Budapest Institute, Budapest.

23) *Source:* OECD, Employment Outlook, 2011, OECD Publishing, 2011.

24) Does not work, is actively seeking work and is available.

25) *Source:* Köllő János–Nagy Gyula: Bérek a munkanélküliség előtt és után (Wages before and after unemployment), in: Közgazdasági Szemle (Economic Review), Vol. XLII, 1995/4, pp. 325–357.

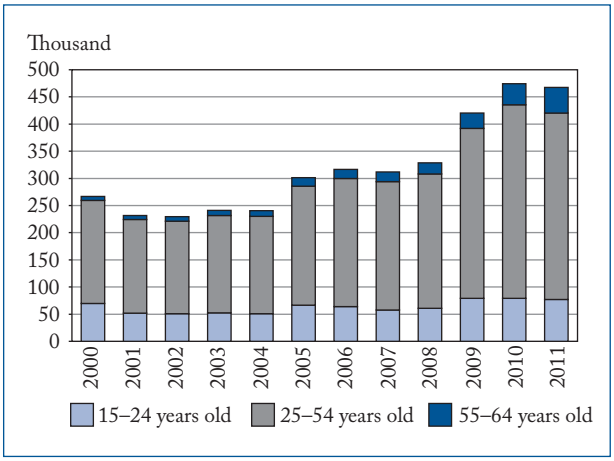
Compared to the previous year, the number of unemployed people diminished by 1.5%. Within the year, the level of unemployment was essentially unchanged, and the indicator was the lowest in quarter 4. More than 16% of children live in jobless households. This proportion in Hungary is the double of that in the Czech Republic and Poland, and exceeds significantly the similar indicators of Slovakia and Romania, and the EU average (10.6%) as well.

The unemployment rates of men and women were equal (11.0%) in 2011, though the rate decreased among men and increased among women.

The unemployment of young people as well as of people of the so-called 'best working age', the most numerous group among the unemployed, lessened last year, while that of people belonging to older generations grew. Both the raising of retirement age and the stricter conditions of disability pension contributed to the deteriorating indicators of the older population. The unemployment rate of young people is the highest; it was 26.1% in 2011, while the rate was 10.1% in the age group 25–54 and 8.7% in the age group 55–64.

Figure 1.14

Number of unemployed people by age groups
(within the population aged 15–64 years)



The average duration of job seeking did not change, it was 18 months. While in 2009 the proportion of newly unemployed people increased and that of long-term unemployed people, who had been searching for a job for at least one year, fell, in 2010 the proportion of the former diminished and that of the latter group rose. In 2011, nearly half of unemployed people (48.9%) were long-term unemployed, slightly fewer than a year earlier.

In addition to the data from the Labour Force Survey of the Hungarian Central Statistical Office, the data of the National Employment Service from administrative sources are available as well. The number of unemployed people follows the same trend in the two systems of different concepts. In 2010–2011, the difference diminished compared to the previous two years, and stabilized at about 115 thousand. Last year, the annual average number of **registered jobseekers** was 583 thousand, the same as a year earlier.

In the past years, unemployment grew significantly in the EU and in the surrounding countries as well. In 2011, the indicator was the highest (12.8–21.8%) in Spain, Greece, the Baltic States, Ireland, Portugal and Slovakia, while the EU average was 9.7%. In 2011, the unemployment rate of young people (15–24 years old), exposed the most to the negative effects of the labour market, was 21.3% on the average in the EU, which slightly exceeded the level in 2010. The indicator is above 40% in Spain and Greece, above 30% in Slovakia, Lithuania and Portugal, while unemployment affects Dutch, Austrian, German and Norwegian young people the least (7.6–8.7%). The 26.1% unemployment rate in Hungary is similar to the ones in the neighbouring countries, and, according to this, we belong to the upper middle-rank in the EU.

The connection between opportunities to find a job and educational attainment is close, but the problems in the structure and quality of education come perceptibly into the limelight. Although in the past decades employment indicators of young people were below the EU average in almost all respects (and the gaps were widening continuously), the employment of **young people with a university or college degree** was above the EU-average until 2009. The expansion of tertiary education is shown by the fact that while between

1970 and 1990, among the much larger age groups, 24.4 thousand young people had graduated from university or college every year, in the last two decades 1.7 times as many people obtained a diploma on the average each year, and nearly two-thirds of them studied in full-time education. The employment rate of 20–24-year-old young people with a university or college degree dropped from 78.6% at the turn of the millennium to 61.4% by 2009 and then to 57.6% in 2011, that is the earlier advantage in employment, when the rate in Hungary was 18.1 percentage points higher than the EU-average, diminished. This means at the same time that people with tertiary education also have to take more and more into account the risk of unemployment. Unemployment is especially high (19.8%) among the 20–24-year-old people with a university or college degree, this rate was 7.0% among the 25–29-year-olds in 2011. The labour market differentiates more and more between university and college degrees: in the age-group 25–29, unemployment rate was 7.4% among people with a college and 6.5% among those with a university degree. On the supply side, the increasing number of graduates is shown by the fact that the so-called graduates' wage advantage (the rate of wages of people with tertiary education to those of people with primary education[26]) decreased. At the same time, in the second half of the past decade, the proportion of those holding a degree increased among young people in occupations demanding a lower qualification (e.g. assistants). The changes in the employment and unemployment of young people point to the permanent problems in the supply and demand. Calculated in Purchasing Power Standard (PPS), which filters out price level differences, Hungary[27] spends about 5 thousand PPS per year on the tertiary education of a full-time student. This amount does not reach 60% of the EU-average, but equals the level in Slovakia and exceeds the one in Poland. The amount spent on tertiary education is the highest in Sweden and in the United Kingdom, and is nearly three times as much as in Hungary.

Eurostat published three new indicators of the **potential additional labour force** at the end of 2011. In Hungary, within the population aged 15–74 years, 229 thousand people belonged to the 'reserve' segment of the category, close to the notion of unemployment; 95% of them wanted to work and would have been able to, but did not search for a job. Another 5% searched for a job but were not available. The number of people belonging to the additional labour force went up by 9% compared to the previous years. The number of underemployed part-time employees was 69 thousand, and it grew continuously in the past years.

Young people and their employment

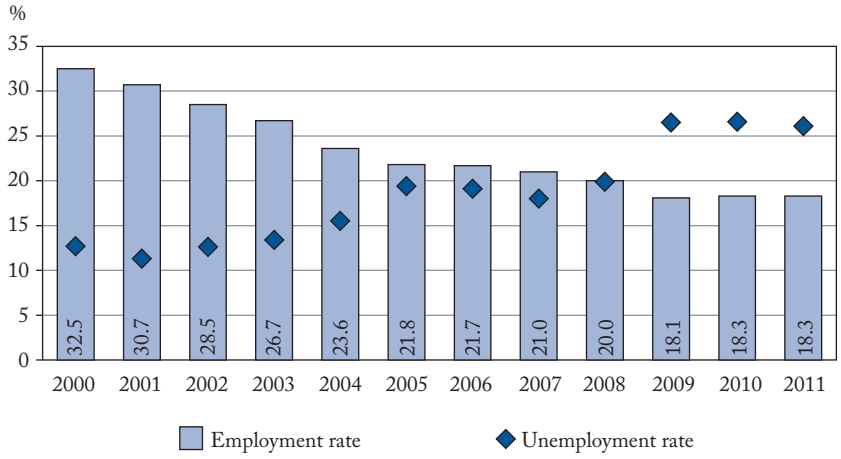
The social integration of young people, the smooth transition from school to work is one of the most important issues. In 2011, the number of 15–24-year-old people was nearly 1.2 million in Hungary; this accounted for 17.6% of people in working age who make up the potential labour force supply in the labour market. According to educational attainment indicators, their qualification is much above that of older generations due to the expansion of education. However, it is essential in both economic and social aspects that they should enter the labour market well-prepared, with a qualification and knowledge meeting market demands and in possession of appropriate technological knowledge.

In EU comparison, employment rate is one of the lowest in Hungary, and this is true for young people as well. Among them, 218 thousand were employed, i.e. approximately one in five of them had a job. The low employment rate reflects the longer education process, which is not supplemented by working. Nearly 8% of young people were present in the labour market as unemployed, their unemployment rate slightly improved in the past two years.

[26] *Source:* Education at a Glance 2011: OECD Indicators, OECD Publishing, 2011.
[27] From the budget and private sources.

Figure 1.15

Labour market situation of young people aged 15–24 years



First of all, language skills, professional training and computer skills help young people in finding a job. Among young people, the proportion of those with languages skills (and within them those with a language exam) increased significantly. Among the 15–29-year-old people with language skills, more than the half of the employed and one-third of the unemployed were assisted by their language skills in obtaining their current or last job. The computer culture and IT skills of young people improved considerably. Access to computers was facilitated both in households and in education. Only one-fifth of young people with work experience do not have any computer skills. IT knowledge helped nearly two-thirds of employed and about half of unemployed people with computer skills in obtaining their current or last job. 55% of young people with work experience could obtain their job through interpersonal connection, with the help of parents, relatives, friends or acquaintances. One in five of them could find a job via advertisements, internet, while 7% through an employment office. The joint proportion of other methods of obtaining a job (private employment agencies, ex-school or organization providing professional training etc.) was 18%.

Labour market activity is invariably much more favourable in the central and the western regions

The regional polarization of the society and the economy slightly moderated during the crisis. After a long time, the situation of Western Transdanubia became the most advantageous in respect of employment and unemployment. Though the position of Central Hungary was essentially unchanged, the opposite changes in Budapest and in Pest county are remarkable. A rise in employment and a decline of unemployment was characteristic in Central and Western Transdanubia, while the situation did not practically change in Southern Great Plain.

Besides the practically unchanged level of unemployment, the number and proportion of employed people exceeded the level of the previous year in Northern Great Plain, while in Southern Transdanubia and Northern Hungary, the number and proportion of unemployed people grew and employment diminished or stagnated. The employment rate is invariably the lowest and the unemployment rate is invariably the highest in this latter region. However, the regional picture of the labour market hardly changed on the whole, and inequalities were again generated.

In connection with the different economic potentials of the regions, according to the employment rates, two well-distinguishable groups were formed. Besides low employment, characteristic of the whole country, the labour market activity of Central Hungary as well as of Central and Western Transdanubia is much more intensive than that of Southern Transdanubia and the eastern parts of the country.

Table 1.4

Employment and unemployment in Hungary
(among the population aged 15–64 years)

(%)

Region	Employment rate			Unemployment rate		
	2000	2010	2011	2000	2010	2011
Central Hungary	53.4	60.3	60.2	5.2	9.0	8.9
Of which: Budapest	53.9	54.7	54.9	5.2	9.1	9.6
Central Transdanubia	52.3	57.3	59.9	4.8	10.3	9.4
Western Transdanubia	55.9	59.0	60.2	4.2	9.2	7.4
Southern Transdanubia	46.9	53.1	51.8	7.8	12.2	12.8
Northern Hungary	43.7	48.7	48.7	10.1	16.1	16.8
Northern Great Plain	43.6	49.3	50.3	9.2	14.6	14.6
Southern Great Plain	48.7	54.6	54.5	5.2	10.7	10.7
Country, total	**49.6**	**55.4**	**55.8**	**6.4**	**11.2**	**11.0**

Job vacancies were dwindling in the private sector, while they were on the rise in the public sector

The number of job vacancies to be filled, as a leading economic indicator, shows the current workforce demand, and responds sensitively to the changes in the economic situation. The indicator decreased from the end of 2008 hitting its low in quarter 3 of 2009, and it has slightly increased since that time. In 2011, the rate of job vacancies was 1.1%, 0.1 percentage point higher than in the previous year. The average number of job vacancies was 28.7 thousand, 5.7% more than a year before. 55% of jobs to be filled were available at corporations, 41% at budgetary institutions, and the remaining ones at non-profit organizations. It is an unfavourable phenomenon in respect of the labour market that the number of job vacancies in the private sector slightly decreased year on year, while there was a more significant increase at budgetary institutions (21%) and a more moderate one in the non-profit sector (3.3%). The high number of job vacancies announced in the public sector is the consequence of the accelerated generation change, accompanied by a further 5 thousand vacancies at armed forces. More than one-fourth of job vacancies were to be filled in in manufacturing and 15% each in public administration and in health services.

The number of people absent from the labour market decreased

The majority of the potential labour force reserve does not perform paid economic activity with the approval and agreeing support of the society. Their number is different by age-groups, and age is a significant distinctive feature in their case. The deteriorating prospects of employment during the crisis, the narrowing range of social security provisions encouraged people who had not been present in the labour market either as employed or as unemployed to take a more active role. In 2011, out of hundred 15–64-year-old people more than 37 studied, lived on some kind of pension, raised children on child-care leave, cared for relatives in need or neither studied nor worked. Their proportion diminished by more than 2 percentage points, but even so it exceeded the EU-average by more than 8 percentage points. Over the year, the drop affected first of all the largest group of inactive people, the pensioners, which resulted mainly from the stricter rules of eligibility for disability benefits and the continuous rise of retirement age. The demographic characteristics of economically inactive people differ significantly from those of the total population. Among them, the proportion of women is higher than the average (59%), which is mainly connected to making use of child-care benefits, having other family responsibilities (care for sick or old family members etc.) as well as to the lower exit age from the

What do inactive people think about finding a job?

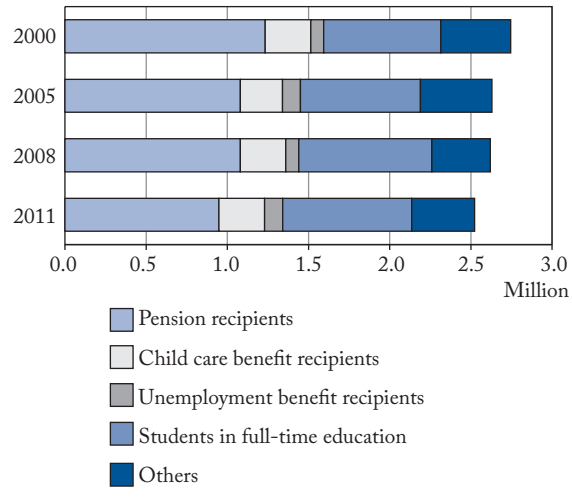
Among 15–64-year-old inactive people, the most frequent reason for not looking for a job is studying or retirement. Both in Hungary and the EU 90% of young people think that searching for a job during studies is of secondary significance. 70% of the surveyed older (55–64-year-old) age group did not see the point in having a job while receiving a pension. Bad health condition or some kind of family responsibility – supervision of children or handicapped family members, care for sick or old people – may hinder the search for a job. Although only one in seventeen of the surveyed people indicated the lack of jobs in reachable distance, a quite significant share of inactive people deem that it is pointless to search for a job, as, due to their weak position in the labour market, they would not get one anyway.

labour market of women than that of men. The highest inactivity is characteristic of the younger and the older age groups. The former group comprises mainly full-time (in very small proportion part-time) students, while the latter group receives some kind of pension.

A significant part of the inactive population can be considered as potential additional labour force, but many of them have much difficulty in returning to the labour market. Their opportunities to find a job are deteriorated by low educational attainment, lack of professional qualification or out-of-date qualification, health impairment, disability or any other social disadvantage, not to mention that working after a long period of inactivity is often possible only following rehabilitation. It is remarkable that, despite these deficiencies, the proportion of those who intend to perform regular, paid work climbed from 12.6% in 2008 to 15.3% by 2011.

Figure 1.16

Number and composition of the economically inactive population aged 15–64 years



55% of the inactive population aged 15–64 years had a regular, reported income. The remaining people having no source of regular income are the dependants. The source of income is mostly pension or some kind of social provision – child-care or unemployment benefit, orphan's or nursing allowance. Full-time students belong to the category of dependants, but no more detailed information is available on the costs of living of one in 7 or 8 dependants. This latter group represents a large number of people within the inactive. The reason for their absence from the labour market is unknown, but presumably they are not only dependants but are present in the labour market as occasional workers. The shares of the different groups did not change in the past three years, except for that of pensioners, whose proportion lessened by more than 3 percentage points.

Educational attainment, education and training

The problems of employment and education are closely connected. Schools have to ensure first of all the attainment of basic skills, but, at the same time, they have to provide a knowledge which is saleable in the market economy and meets the present (or rather the presumed future) demands of employers. Finally, their task is to develop the non-cognitive knowledge, to enhance the socialization of children

and to educate them as well. A part of this latter is the endeavour to mitigate family socialization deficits, especially cultural inequalities. The present education system cannot really fulfil this function. There are exceptionally good schools in Hungary, but the reproduction of inequalities is practically palpable. According to competence assessments (PISA) in OECD member states, the effect of the parental background on the performance of students is one of the strongest in Hungary. At the same time, it can be appreciated that the proportion of early school-leavers is lower than the EU average and it improved by 2.6 percentage points in the past ten years. Early school-leavers are young people aged 18–24 years who do not have secondary educational attainment or vocational qualification and do not take part in any kind of education or training.

The **educational attainment** of the population improved further in the past years. According to the data of the labour force survey, more than one-fifth of the population aged 25–64 years had a college or university degree in 2011, the highest educational attainment of 31% was G.C.S.E, while the proportion of those having completed vocational or apprentice school was somewhat lower (29%). 18% of the population had low educational attainment, i.e. 8 grades of primary school at most. Between 2005 and 2010, the proportion of those with tertiary educational attainment grew by 4 percentage points. The proportion of those with G.C.S.E. increased somewhat as well, but to a smaller extent than that of the former group. A significant change is that the proportion of those with 8 grades of primary school at most shrank by more than 5 percentage points over six years.

During compulsory education, the number of students in the education system is basically determined by demographic processes. The dwindling number of school-age children affects the sustainability of educational institutions negatively. As a consequence of the descending number of children, the possibilities for economical operation are deteriorating in a number of small settlements.

Before the change of regime, the number of students in tertiary education was regulated by admission quotas, thus, at the end of the 1980s, the proportion of people with a college or university degree was far below the level in the developed Western European countries. Among the population, the demand for tertiary education became more and more significant, and at the same time, the transforming economy also needed more professionals with a college or university degree and much fewer skilled or semi-skilled workers. The sudden fall in the number of employed people also gave a reason for the longer education of young people. Consequently, at the beginning of the 1990s, tertiary educational institutions obtained the possibility to expand the number of students, and later they also became interested in this through the new system of financing. As a consequence of this process, secondary education with G.C.S.E. has significantly expanded as well, and fewer and fewer students chose apprentice schools. The structure of tertiary education was transformed as well, and, especially in the mid-2000s, fee-paying training played a more and more significant role. It became again a timely issue whether a harmony between the structure of education and the labour market demands can be created or not. The new National Public Education Act, adopted at the end of 2011 and entering into force in the autumn of 2012, is going to entail many changes in the education system. Some of them will already be realized this year, while the others only in the following years.

Fewer kindergartens, more places

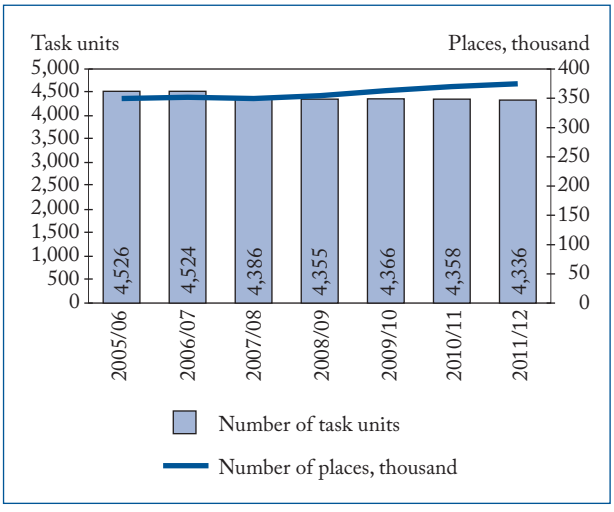
Kindergarten education can simultaneously help parents in having a job and, especially in case of disadvantaged families, the socialization of small children. In the past decade, the total number of **kindergarteners** decreased to a much smaller extent than that of the total age group concerned. Compared to infant nursery care, kindergarten education is relatively well developed, partly for historical reasons and partly due to the fact that kindergarten education is compulsory[28)].

[28)] Kindergarten education is compulsory from the age of five for at least 4 hours a day, so, it is a part of public education in this respect. The kindergarten designated by the place of residence is obliged to admit the children who turned 5 years of age.

In the first half of the last decade, the number of kindergarteners diminished, then it stagnated, while it has been increasing since 2008. In 2011, the total **number of kindergarteners** was 341 thousand. The uniform kindergarten-crèche groups[29] introduced in 2008, which can be attended by children from the age of two (524 children in 2011), as well as the fact that from September 2010, children under three years of age are admitted to kindergarten if they are to turn three years of age within half a year[30] also contributed somewhat to this latter increase. These two changes resulted in the emergence of children under three years of age among kindergarteners. Since 2010, their number has grown considerably, and in 2011 there were nearly 7,000 kindergarteners younger than three years. At the same time, there were significant capacity developments as well. Until 2007, the number of kindergarten task units and places had changed more or less parallelly, i.e. they had been reduced. After that time, in parallel with a decrease in the number of kindergartens, the number of places expanded. On the whole, in the past half decade, the concentration of kindergarten education could be observed.

Figure 1.17

Number of kindergarten task units and places



The demand for kindergarten education in the different regions of the country depends on the number of small children and the local labour market opportunities, since families where the parents found a job or could return to their earlier work after the period of child-care leave are more forced to enrol their children younger than 5 years in kindergarten. In case of over-application, theoretically it is not compulsory to admit children under 5 years of age to the kindergarten, but quite a few exceptions are stipulated by law when children have to be admitted by all means (e.g. children of disadvantaged, large or single-parent families etc.). The regional inequalities of the provision system are shown by the fact that in Northern Hungary the proportion of children who spent three or more years in kindergarten is lower, while that of those who attended large groups with more than 25 children is higher. The demand for kindergarten places exceeded the supply in Pest county considerably, where kindergarten groups were the most crowded in 2010.

In 2011, the number of students decreased both in primary and secondary education

The number of **primary school students** was 750 thousand in 2011, and nearly 748 thousand of them attended full-time education. Along with the fall in the number of children of schooling age, the number of those starting the first class continued to lessen (by 3% since 2005). In 2011, 98 thousand first-year pupils began the first class. In the observed period, the proportion of students in daytime care went up from 41 to 46.5%, while that of students receiving school catering grew even more considerably, by 9 percentage points to 73% (in lower primary education it is much higher, with nearly full coverage). The proportion of students taking advantage of daytime care and daytime study is by far the highest in the

[29] Uniform kindergarten-crèches may be established if the municipal council is not obliged to operate a crèche and the number of children does not allow the separate establishment of a kindergarten group and a crèche group, also provided that the applications of all the children having a domicile or, in default of that, a place of residence in the town or village for admission to kindergarten can be granted. Act LXXIX of 1993 on Public Education, Article 33.

[30] In case if the kindergarten admission of all children aged three years or older living in the municipality (in districts of the capital city, in the municipality concerned if the admission district is in more than one municipality) is fulfilled. Act LXXIX of 1993 on Public Education, Article 24.

capital city. The number of students with special educational needs was 52 thousand; out of them nearly 19 thousand attended education of the handicapped. Their proportion has been shrinking since the turn of the millennium, as, in compliance with the education policy objectives, more and more children participate in integrated education. The number of teachers is diminishing, but not to a larger extent than that of students. The number of students per teacher has been practically unchanged for years.

Despite the fall in the number of children in the age-group concerned, the number of students in **secondary education** had grown or stagnated until the end of the last decade, which can be attributed somewhat to the increasing demands but mainly to the longer duration of education. However, in 2011 already 2% fewer students participated in full-time education than a year earlier, and their total number was 567 thousand. In the last six years, the proportion of students in apprentice schools, following a temporary decline between 2005 and 2006, began to

Educational attainment and finding employment

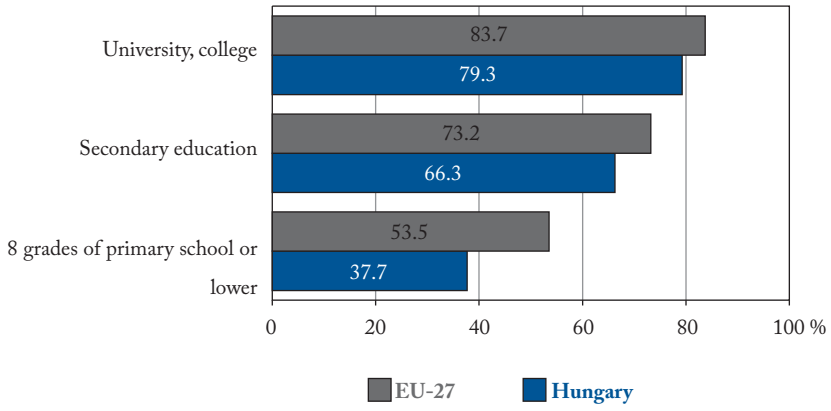
In respect of employment, our backlog is the largest among people with the lowest educational attainment. In addition to vocational trainings, the qualitative reform of primary education can provide a possibility to reduce the proportion of unqualified people. However, the higher level of educational attainment in itself, without creating new jobs, does not ensure the decrease of unemployment. It has to be undoubtedly taken into account as well that unemployment is rising among people with a college or university degree (especially among young professionals) as well, although to a smaller extent than the national average.

Theoretically, adult education provides an opportunity to lower the number of unskilled people. Nevertheless, in international comparison, adult education is at quite a low level in Hungary; 2.8% of the population aged 25–64 years participates in some kind of training, while this proportion is 9.1% in the EU.

An adequate transformation of vocational education may also cut the number of unskilled people, and so contribute to the growth of employment. In the interest of a better adjustment between vocational education and the labour market, since 2008, associations of vocational training institutions, so-called Regional Integrated Vocational Training Centres have been established in order to develop the infrastructure of vocational trainings. Their role is partly the regional organization of the training structure and partly the strengthening of the level of training with the help of institutional cooperation.

Figure 1.18

Employment rate by educational attainment, 2011



Longer duration of education

The prolongation of the duration of education affected first vocational training. In the 1990s, by reforming the formal vocational education, the duration of education lengthened. Since that time, students have participated first in general education, and then in vocational training from the 11th class in apprentice schools and from the 13th class in secondary vocational schools. Since 2004 it has been possible to launch a 'YILL – Year of Intensive Language Learning' in the 9th class of secondary schools, which increased the duration of education in secondary grammar schools and affected again some secondary vocational schools as well. Already in the first year, 400 schools have taken advantage of this opportunity. All these contributed to the growth in the number of students in secondary education.

rise again, while the share of students in secondary grammar schools essentially stagnated or began to lessen slightly. The decrease in the high popularity of secondary vocational schools, achieved earlier, in the 1990s, continued, but this type of school is still chosen by the most students at present. In 2011, among students in secondary education, nearly 25% attended apprentice schools, 41% secondary vocational schools and 34% secondary grammar schools. In secondary education, the number of students per teacher was the most favourable (11) in secondary grammar schools and it was the highest (13) in apprentice schools. At the same time, the number of students per class showed an opposite order, the classes were the smallest in apprentice schools.

Number of applicants and those admitted to tertiary education at the peak in 2011

In the past decade, a much larger proportion of students with G.C.S.E. studied further than earlier. The expansion of **tertiary education** started at the beginning of the 1990s, but it is less apparent how far this process has gone up to now. The phenomenon can be estimated by the number of applicants, the number and proportion of those admitted as well as by the number of students, and it shows a different picture by the type of education. In full-time education, this process continued, although unambiguously decelerated, while in part-time education it reached its peak, and the number of students has been decreasing since 2005. By 2009, the distribution of full-time and part-time students returned to the level observed before the change of regime.

The number of applicants for full-time education fell considerably between 2005 and 2008, then it rose again significantly in 2009–2010. In 2011, both the number of applicants and the number of those admitted went up only slightly, however, both reached the highest level of the last twenty years in 2011. The proportion of students admitted to full-time education was the highest in 2008, when 78% of the applicants were admitted. After that time, this share dwindled significantly; it was 65% in 2010, but in 2011 it rose slightly again. The number of students was the largest in 2008 and 2009, when 243 thousand students attended full-time education, and this number has hardly changed since that time.

Table 1.5

Data of full-time tertiary education

Year	Number of applicants, thousand	Proportion of those admitted, %	Total number of students, thousand
2005	91.7	57.8	231.5
2006	84.3	64.1	238.7
2007	74.8	68.1	242.9
2008	67.0	77.8	242.9
2009	90.9	67.4	242.7
2010	100.8	65.0	240.7
2011	101.8	65.6	241.6

However, the rate of growth in the number of those having successfully graduated did not follow the increase in the number of students admitted. The difficulties in passing a language exam necessary for acquiring a degree were mostly in the background of the delay or failure of obtaining a diploma. The number of students who did not obtain a diploma due to the lack of a language exam equalled 22 thousand in 2010 (among them, 12 thousand were full-time students).

One of the Europe 2020 indicators shows the proportion of people with tertiary educational attainment among the population aged 30–34 years. The targets set for the member states are different, it is 30% for Hungary. This proportion was 26% in 2010 and it rose by 11 percentage points over ten years.

Table 1.6

Distribution of college and university students by fields of training, full-time education

(%)

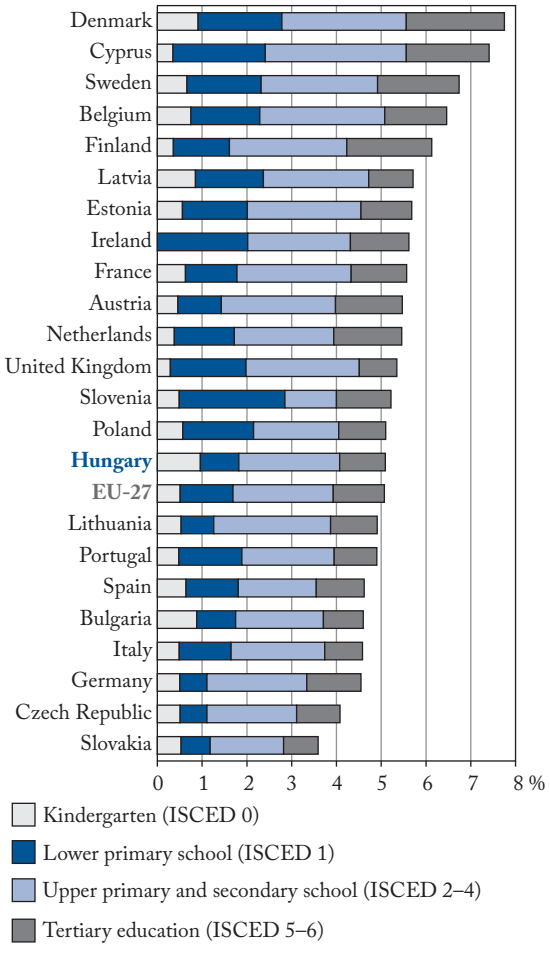
Field of training	2005	2008	2011
Teacher training and education science	11.8	7.0	4.7
Arts	2.2	2.7	2.9
Humanities	9.6	10.4	8.5
Social sciences	13.8	9.4	10.2
Business and administration	14.9	19.7	17.8
Law	4.5	4.2	4.0
Natural sciences	3.2	4.8	5.3
Computing	4.4	4.3	3.5
Engineering, manufacturing and construction	16.8	17.3	20.2
Agriculture	3.1	2.5	2.4
Health and welfare	8.9	10.1	11.5
Services	6.6	7.8	8.6
Total	**100.0**	**100.0**	**100.0**

Since 2006, tertiary education has been transformed from the earlier dual system to the Bologna (multi-cycle) degree system. Higher vocational education and PhD training fitting into this system were already launched earlier, in the 1990s, and the number of applicants and those admitted to these courses was growing dynamically.

Since 2005, there have been many smaller and some significant shifts in the number of students of the different fields of training. The proportion of students in teacher training and agricultural sciences continued to decrease, in the former one it fell to less than the half of the earlier. The share of those studying engineering, manufacturing and construction as well as natural sciences, health and welfare and services rose. Some fields of training, which had had an increasing weight earlier, had fewer students last year (social and human sciences), thus, some kind of correction in the education structure occurred in the past years.

Figure 1.19

Expenditure on education as a percentage of GDP, 2008



On the **government expenditure on education,** data of 2010 are available. That year, the total expenditure spent on education amounted to HUF 1,263 billion, 2% more at current prices than in the previous year, but less than two years earlier. Education expenditure as a proportion of GDP was already decreasing before the spread of the world economic crisis, and it has not fallen much since that time (5.3% in 2005, 4.8% in 2008 and 4.7% in 2010).

In international comparison, education expenditure in Hungary as a proportion of GDP is in the middle rank, although in earlier years our position in the ranking was more illustrious. In respect of expenditure on kindergarten education, i.e. the lowest level of the education system, as a proportion of GDP, we belong to the top of the ranking, but at the other levels of education less is spent than the international average. Among education expenditures in Hungary, the proportion of expenditure spent on public education, except for kindergarten education, declined in the observed period, while that of expenditure on tertiary education rose until 2009, but it diminished again in 2010.

2. Living conditions

Income

• The rise in real wages due to personal income tax changes as well as the payment of pension fund real returns affected incomes and consumption favourably in 2011. In spite of that, the income status of the population did not improve, as the unfavourable labour market situation, the higher amount of instalments and the rise of consumer prices neutralized the above positive effects.

• In respect of **earnings**, the most important change was the introduction of the flat rate of 16% on personal incomes, which was coupled with a family tax benefit aimed at encouraging having more children as well. Formerly Hungary was one of the OECD member states with the highest level of taxes and contributions, which subserved black employment. In 2011, the rise of real earnings taking into account family tax benefit was 5.8%. The effect of tax cut on employment can be judged only in the long run.

• The income disadvantage of families with children against childless families is moderated by the **family support** system. Among supports, there are benefits paid on a universal basis, insurance-based benefits and supports provided through the tax system as well. In 2011, the real value of the insurance-based pregnancy and confinement benefit as well as child-care benefit increased, while that of benefits paid on a universal basis, such as family allowance decreased. Over the year, a regulation concerning a new tax allowance depending on the number of children was built into the income tax system. As a result, the real value of earnings in families with children, especially with three or more children increased considerably compared to those in childless families: compared to the previous year, real wages rose by 6.4%, 12.0% and 19.0% in families raising one child, two children and three or more children, respectively, while they went up by 1.3% in childless families.

• For nearly one-third of the population, the regular source of living is **pension**. The increasing proportion of social income within the income of households – compared to the paid wage block – can be explained by the rising pension expenditure. In the recent years, the number of pensioners fell again significantly, and, among them, the proportion of disability pensioners below retirement age lessened. After a decrease in the previous two years, the real value of pensions increased slightly in 2011, and their average monthly amount per recipient was HUF 91,292.

Financial assets of households

• At the end of 2011, the **net financial assets** of households amounted to HUF 16.1 trillion, 8.8% less than a year earlier. This fall resulted from the 5.9% decrease in gross financial assets and the 1.3% decline in liabilities. Over one year, due to early repayments and fixing the rate of exchange, the proportion of foreign currency loans, accounting for six-tenths of liabilities, decreased by 3 percentage points, while that of HUF loans went up to the same degree.

Household consumption

• In 2011, the diminishment of **household consumption**, having lasted for years, stopped. The volume of household consumption expenditure did not change in 2011, while the volume of transfers in kind from the general government increased slightly and that of transfers received from non-profit institutions serving households decreased compared to the previous year. Government measures on incomes encouraging consumption were essentially eroded by negative effects (the considerable indebtedness of the population, the forint's weakening exchange rate, the continuation of the crisis).

• The three items having the largest proportion in the **consumption structure** of households are food, housing and transport. In international comparison, the proportion of expenditure spent on food is relatively high, similarly to the other new EU member states. Until 2005, this proportion had fallen considerably, and it has been essentially stagnant since that time. The proportion of housing was continuously increasing in the past years, and since 2009 this has been the largest item of household expenditure. The share of expenditure spent on transport has been decreasing since 2006.

• **Income inequalities** engender significant differences in consumption. The difference in the consumption of the top and the lowest income deciles is invariably considerable, although it decreased somewhat in 2010. People in the top income decile spend on the average four times as much on consumption as those in the lowest income decile. The difference is below the average in food expenditure, while it is significant in expenditures connected with culture, transport and restaurants and hotels.

• Three-tenths of the Hungarian population were threatened by **income poverty** or social exclusion. Compared to 2009, this proportion slightly deteriorated, and in 2010 we were the fifth in the ranking of poverty in the member states of the European Union. The difficult financial situation of the population is reflected by the fact that in 2010 more than one-fourth of households declared that they could meet their expenses only with great difficulties, while this proportion had been only one-tenth in 2005.

Culture

• Out of the average daily four and a half hours of free time, about three hours are spent on some kind of **cultural activities**, nearly three-fourths of which are spent on watching television. Although internet became a detectable part of everyday life, on the whole it cannot compete with television. Hungarian people spend on the average 20 minutes per day on reading, and about 26% of the population are regular readers. Both the number of readers and the time spent on reading decreased compared to the results of the time use survey ten years before. In the past few years, the use of different cultural services changed differently. Attendance rose at libraries and concerts, and fell at museums and cinemas.

Counsumer prices, inflation

• The past few years saw a relatively wide range of **inflation** figures. In 2011, consumer prices increased by an average of 3.9% year on year, the last time when the inflation was so low was five years earlier, in 2006. In 2011, changes in food, fuel and household energy prices exerted a significant influence on the change of consumer prices. Similarly to the previous years, lower-income and pensioner households had a higher rate of price change, while active and higher-income households saw a lower-than-average inflation rate. Since our EU-accession the annual consumer price index, based on harmonized methodology, has exceeded

the EU-average each year. 2011 saw an acceleration in most of the EU countries, only 4 member states – including our country – observed an annual slowdown in inflation.

Housing

• The crisis is detrimental to the **home market**. Not even in the years of the interwar economic crisis or in the strained circumstances in the period after the 2nd World War were fewer dwellings built. In this undercapitalized branch, dwelling construction had to cope with market saturation, the tightening of credit subsidies and foreign currency credit restrictions. According to the preliminary data of the census of 2011, there were 4 million 383 thousand dwellings in the country, 318 thousand more than in 2001. Central Hungary and Western Transdanubia saw the sharpest increase in the housing stock. Occupied dwellings accounted for 89% of the stock, while a rise took place in the number of vacant or under-occupied (seasonal or otherwise used) homes during the last ten years.

Health

• According to public health data, the **health status of the population** impaired in a number of areas. Although life expectancy at birth has slightly risen since the change of regime, life chances in Hungary are worse than in our narrower environment and than the EU average. One of the main reasons for that is the unhealthy lifestyle of the population (inappropriate nutrition, addictions, inactivity). Access to treatment by physicians is in the middle rank in international comparison. Physician shortage is higher in the fields of rescue (26%) and blood supply (20%), but it exceeds the national average in inpatient services (7%) as well. Larger regional inequalities can be observed in the latter one as well.

Social care

• **Social protection expenditure** in Hungary accounted for 23.4% of the GDP according to the recent international comparative data. Expenditure on pensions represents the largest item of expenditure. Within total provisions, the proportion of benefits in cash has been increasing in Hungary since 2005, while in the EU it has been decreasing. In the practice of support, the process of centralizing the originally relatively decentralized system in Hungary and tightening the locally regulated benefits or supports based on equity has been lasting for a longer time. The number of support recipients is significantly different by regions. In the poorer parts of the country, the number of support recipients per thousand inhabitants may be several times as many as that in the capital city.

• Despite the considerable capacity developments in the middle of the last decade, the availability of **social services** does not reach the level stipulated by law. At the same time, even the maintenance of the current provision system causes serious problems. Despite this fact, the development of the more cost-effective provisions near home stopped or regressed in the last four or five years, and the number of people living in residential social institutions continued to increase.

Crime – public security

• Analyzing the issue of public security from the side of crimes, the number of **registered crimes**, after a fall in the preceding period, increased again. It mainly resulted from a rise in the number of crimes against law and order and economic crimes. An increase in the number of drug abuses and misuses of documents is the backdrop to the rise in the number of crimes against law and public order. Crimes are similar in volume and structure to those of the Western European countries. The number of prison population continued to rise during the last years to 17,200 in 2011.

Summary data

Denomination	2009	2010	2011
Average earnings of employees, HUF/month			
gross	199,837	202,525	213,054
net	124,116	132,604	141,127
Real wage index, previous year=100.0	97.7	101.8	102.4
Expenditure on pensions as a percentage of GDP	11.5	11.2	11.3
Average monthly amount of old-age pensions, HUF/capita	98,804	104,014	104,571
Number of books published	12,841	12,480	11,821
Cinema attendance per hundred inhabitants	107	112	..
Theatre attendance per hundred inhabitants	45	46	45
Consumer price index, previous year=100.0	104.2	104.9	103.9
Number of dwellings built per ten thousand inhabitants	31.9	20.8	12.7
Total value of home loans as a percentage of GDP	15.3	16.0	15.0
Registered crimes per hundred thousand inhabitants	3,928	4,465	4,520

Income

The income level of the population is largely determined by the state of development of the country and the size of income available for distribution. The rise in real wages due to personal income tax changes, as well as the payment of pension fund real returns favourably affected the changes in the disposable income of households in 2011. However, since the income situation of the population did not improve, the unfavourable changes in the labour market, the higher amount of instalments and the rise of consumer prices neutralized the above positive effects. The **income of the population** consists essentially of two major parts, income from work and social income. Over the years, income structure of the population altered in a way that the proportion of transfers and pensions rose, while that of income from work lowered. This resulted basically from the changes in the composition of social groups rather than the rise in the amounts of transfers. In the income structure of the Hungarian population, the proportion of compensation of employees is below the EU average due to the low level of employment.

In respect of income, the differences between regions are very considerable; the central and the Transdanubian regions are invariably in the best situation, which is further strengthened by the concentration of foreign direct investments. In comparison by settlement types, households in the capital excel the others: their income is two-thirds more than that of households in villages and exceeds by one-third the national average.

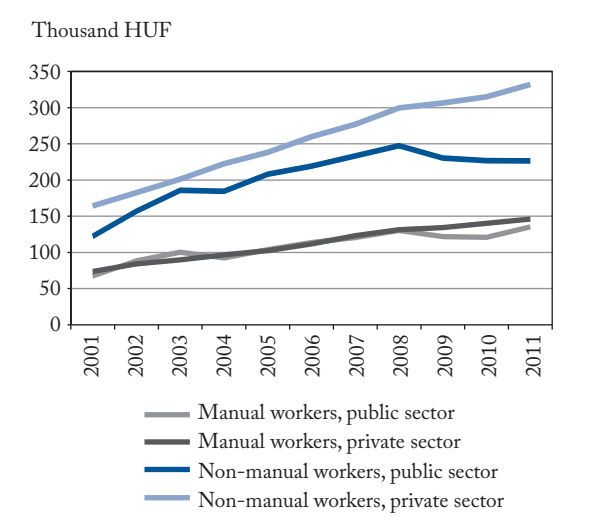
Increasing earnings

The real value of **earnings**, having the largest share in income, was characterized by a rapid growth in the first years of the 21st century. On the whole, a 46% rise occurred between 2000 and 2006. After that time, the measures following the budgetary expansion, aiming at improving the balance (raising the health insurance contribution paid by employees and the employee's contribution), as well as the negative effects of the economic crisis on income, and within that, on wages played a determinant role. Personal income tax changes in July 2009 and in January 2010 made themselves felt through the pace of increase in net earnings. The change of earnings was basically determined by the economic recession in 2009, and then in 2010 by the mitigation of the negative effects of the world crisis. In 2011, by introducing a new approach, the flat personal income tax system based on the number of children, the rise of real earnings taking account family tax benefit was 5.8%. In the last three years, average net earnings after taxation grew at a more rapid pace than gross earnings. Taking into account consumer price changes, the purchasing power of earnings increased by 2.7% between 2007 and 2011 on the whole.

The responses to the economic crisis were different at corporations and at budgetary institutions. In the private sector, earnings rose moderately as opposed to the public sector, where, in order to preserve jobs and avoid headcount reduction, the tool of wage cut was applied. Thus, the real earnings of people employed at budgetary institutions diminished by 8.2% between 2008 and 2010. In the period mentioned, within the EU, more considerable wage cuts and working time reductions occurred only in Germany, Austria, the Czech Republic, Romania, Slovenia and in the Baltic States.

Figure 2.1

Average monthly gross earnings

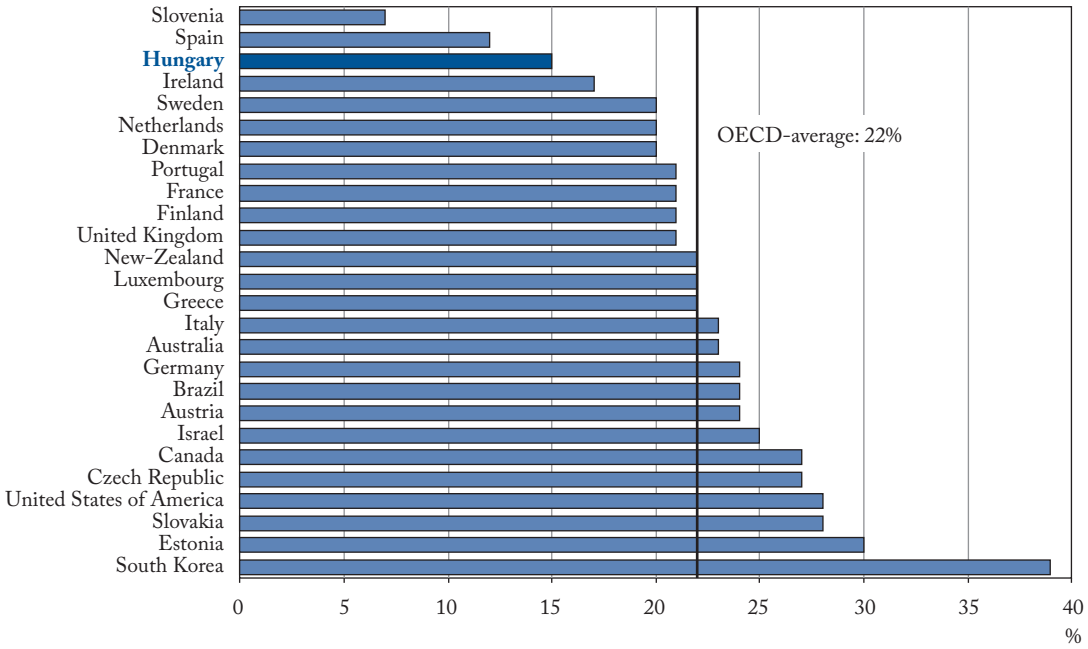


Gender inequalities

Men earn more and work less, there are more men in top positions, while women can expect longer life, have higher educational attainment and can retire earlier.[1)]

Figure 2.2

Gender pay gap for annual full-time gross earnings of women aged 25–64 years, 2009



When examining wages by educational attainment and age, wages of women exceeded those of men only in Slovenia and Hungary among OECD member states, and this is true only for older generations (55–64 year-olds) and for women without a college or university degree whose educational attainment is higher than secondary education. In the other countries, only the degree of difference – 'naturally' in favour of men – varies. No matter whether based on age or educational attainment, Hungary, Slovenia, Denmark, Ireland and Spain belong to countries where the gender pay gap is lower than the OECD average, while the situation is just the opposite in Estonia, Greece, Canada or Brazil, where the gain of the stronger sex is definitely higher.

Among women aged 25–64 years, the gender pay gap is the lowest in Slovenia (7% only), but Spain and Hungary also belong to the explicitly emancipated countries with a gap of 12–15%. Contrarily, in South Korea, Estonia, Slovakia and the United States, the difference is considerable, 30–40%.[2)]

[1)] *Source:* OECD, Gender (in)equality.
[2)] *Source:* OECD, Education at a Glance, 2011: OECD Indicators, OECD Publishing, 2011.

Average gross earnings per capita of full-time employees were HUF 213,000 in 2011, 7.2% more than in 2008. Within this, earnings of people employed at corporations amounted to HUF 217,900, while those of employees in the public sector were more than HUF 14,000 lower. After one decade, the gross earnings of employees in the private sector exceeded again those in the public sector in 2010, and this gap increased further in 2011. In compliance with the trend in the earlier years, due to the composition effect influencing the headcount, gross earnings in the private sector exceeded those in the public sector in case of both manual and non-manual workers separately. Over one year, the difference halved in the staff category of manual workers, while it grew in case of non-manual workers. At the level of the national economy, the average gross earnings of manual workers amounted to HUF 144,200 in 2011, while those of non-manual workers were HUF 284,000.

In contrast with the processes in the previous years, the effect of the headcount composition of manual and non-manual workers did not play a determinant role in the changes of earnings. In 2011, central measures influencing earnings in the private sector were the raising of the minimum wage from HUF 73,500 to HUF 78,000, as well as the partial tax credit elimination; some employers compensated this by raising wages. In average earnings in the private sector, there was a smaller local peak at the beginning of 2011, since the payment of usual premiums and bonuses due at the end of 2010 had been postponed to 2011 because of the new income tax calculation method being more favourable than earlier. As for budgetary institutions, the government undertook an obligation to compensate the disadvantageous effects of the changes in the tax and contribution system in case of lower income brackets. The average monthly amount of the compensation not belonging to wages and salaries amounted to HUF 5,200 and affected nearly 45% of employees. The compensation increased the rise of gross earnings in the public sector by 1.2 percentage points.

In 2011, the value of **net earnings** at individual level was influenced differently by the changes in tax and contribution rules. The 1 percentage point rise of contribution rates was equal for all employees, the introduction of flat income tax and the tax credit elimination resulted in the rise of the net amount received in case of gross earnings higher than about HUF 300,000. In 2011, average monthly net earnings amounted to HUF 141,100, nominally 6.4% higher than a year earlier and 15.4% more than in 2008. At the level of the national economy, the pace of increase of net earnings exceeded by 1.2 percentage points that of gross earnings. After the turn of the millennium, the ratio of net earnings to gross earnings was between 61 and 65%, and it grew to 66% in 2011.[3)]

Compared to the earlier years, the ranking of **sections** remained unchanged in 2011. Net earnings were invariably the highest in the section financial and insurance activities, besides, earnings of employees in the sections information and communication and electricity, gas, steam and air conditioning supply were also considerably higher than the average in the national economy. Net earnings grew the most in these three sections (13–18%). Earnings were the lowest in the sections accommodation and food service activities and administrative and support service activities, where the pace of increase of net earnings was the lowest anyway (0.2–1.5%). These data do not contain untaxed income (gratuity) which is frequent in services and accommodation and food service activities. In 2011, net earnings diminished only in the field of education (by 3.3%), while in the other sections stagnation or a lower or higher rise was observed.

In 2011, the pace of increase of net nominal wages fell year on year in each region except for Central Hungary. Net earnings were 3–8% higher in 2011, while in 2010, a 6–9% growth was observed. The growth of net earnings exceeded the average of the national economy only in Central Hungary. The reason for this was that in Budapest, similarly to the earlier years, the rise was significant. Monthly average net earnings continued to be the highest in Central Hungary and the lowest in the two regions of the Great Plain. Regional differences in earnings increased in 2011, and the wage gap between the region with the highest and that with the lowest earnings widened.

[3)] When evaluating the data, it is worth mentioning that the calculation and publication refer to full-time employees, thus, the headcount fall in case of full-time employees in public work with low earnings influenced the rate of increase of both net and gross earnings by nearly 1–1.2 percentage points.

In the new personal income tax system, the amount of tax allowance depends on the number of children raised. Its maximum amount is HUF 10,000 per child per month in case of one or two children and HUF 33,000 per child per month in case of three or more children. Due to family tax benefits available for those with taxable income, the pace of rise of net earnings was about 3.5 percentage points higher on the average. In the whole national economy, the real value of earnings adjusted by family tax benefit[4] was 5.8% higher in 2011 than in 2010. The real value of wages calculated from earnings excluding family tax benefit grew by 2.4% over one year. The rise of earnings was the highest among families with three or more children, but the purchasing power of wages grew somewhat among childless families as well.

Table 2.1

Changes in net and real earnings taking into account family tax benefit, 2011

Number of dependent children	Net earnings, HUF/ capita/ month	Change in net earnings	Change in real earnings	Distribution of headcount, %
		compared to previous year, %		
No dependent child	138,818	5.3	1.3	49.9
1 child	144,520	10.5	6.4	24.6
2 children	160,494	16.3	12.0	19.2
3 or more children	161,213	23.6	19.0	6.3
National economy, total	**145,802**	**9.9**	**5.8**	**100.0**

FAMILY TAXATION IN HUNGARY AND ABROAD

In order to decrease the burdens of families and to stimulate having more children, in parallel to the introduction of the 16% flat personal income tax system, the family tax benefit came into force on 1st January 2011 in Hungary as well. The main point of the system, having partly a social policy aim and putting the household and the family, instead of the individual, into the centre, is that through the lower income centralization, families with children are provided with allowances by the tax system as well, and, at the same time, employed people are oriented towards legal employment and declared incomes.

There is no generally accepted professional consensus about the short- and medium-term effects of the so-called flat taxation. Along with its general advantages (e.g. simpler tax system, suppressing tax evasion, increasing the tax base, extending labour force supply, a possible acceleration of economic growth etc.), its introduction involved disadvantages for social groups with lower earnings and therefore increased income inequality, since it extended burden sharing to legal, but earlier not taxable earnings or earning parts.

A family taxation similar to the one in Hungary (depending on the number of dependants) and differing only in some points from it is in force e.g. in France and Luxembourg. At the same time, in Germany and Portugal, a family taxation based on 'halving or averages' is characteristic; the income of the spouses is added and halved, and the average income calculated this way is the taxable income of the spouses. The third and most frequent practice of family taxation is that the families receive tax allowance for the children and/or more advantageous tax brackets are applied in case of families raising children.[5]

[4] The changes in the personal income tax system in 2011 – the introduction of the 16% flat personal income tax and the family tax benefit – necessitated the application of a new calculation method. The methodological development, based on a micro-simulation model, allowed to estimate net and real earnings by the number of children taking into account the effect of the family tax benefit as well.

[5] *Source*: A családi adózás nemzetközi tapasztalatai (International experiences of family taxation), in: Mikroszkóp, Vol. XIII/4, 2010.

Role of social incomes in income processes

About one-third of the total income of households is constituted by **social incomes**. Social transfers in cash account for a larger part of this, while social transfers in kind represent a smaller proportion. Pensions and other provisions as well as support of families account for the largest proportion of social income in cash, while education and health services provided for the households by the state or non-profit institutions serving households made up the larger part of social incomes in kind. Social incomes play an important equalizing role in income processes, and in international comparison, Hungary is one of the countries where this role is the strongest. The share of social incomes grew by nearly 3 percentage points between 2005 and 2010, which can be explained mainly by the larger and larger proportion of pension expenditure compared to the paid wage bill and by the increasing unemployment due to the economic crisis.

The income situation of pensioners is invariably stable compared to the majority of the society

The pension scheme involves cash flows in two directions: on the one hand, the payment of contributions in economically active age, and, on the other hand, it serves as a regular income or income supplement necessary for living after retirement, as well as protects against the impoverishment in old age.

The largest item, nearly two-thirds of social transfers in cash is **pension and pension-type benefit**, which represented one-fourth of the total income of households in 2010. The number of pensioners was the highest (3,184 thousand) after the change of regime in 1999, and it has been continuously decreasing since that time. In **2011**, the number of pension and pension-type benefit recipients was 2,901 thousand, which accounted for nearly three-tenths of the total population. Compared to 2010, their number fell by 36 thousand, i.e. by 1.2%.

Table 2.2

Number of pension and pension-type benefit recipients and the average amounts of provisions, 2011+

Provision	Number, thousand persons	Change compared to 2010, %	Average monthly amount of the provision, HUF	Nominal change compared to 2010, %
Old-age and old-age type pensions	2,127	1.0	93,982	5.3
Old-age pensions above retirement age	1,475	1.5	91,922	5.6
Old-age pensions below retirement age[a)]	262	–4.7	126,062	7.2
Disability pensions above retirement age	390	3.4	80,200	3.9
Disability pensions below retirement age	321	–10.3	72,161	4.4
Survivors' pension benefits[b)]	123	–5.7	57,444	3.2
Orphans' benefits	93	–3.5	37,561	2.2
Rehabilitation annuities	25	29.7	72,495[c)]	5.7
Pensions, total[d)]	**2,688**	**–0.8**	**94,689**	**5.6**
Pension-type benefits, total	**212**	**–7.0**	**48,257**	**3.3**
Pensions and pension-type benefits, grand total[e)]	***2,901***	***–1.2***	***91,292***	***5.7***

[a)] In 2011, a new provision for women is the old-age pension after 40 years period of entitlement which is recorded among old-age pensions below retirement age. Early old-age pensions, old-age pensions with age preference, service pensions, pre-pensions, miners' pensions, old-age pensions for persons pursuing certain artistic activities, mayors' pensions are also recorded here.
[b)] Widow(er)s' and parents' pensions as main provision.
[c)] The average monthly amount of rehabilitation annuity per capita is the average calculated from the payments in the reference month (disregarding intra-month payments).
[d)] When calculating the average of the provision, the one-time benefit of HUF 0.6 billion paid in 2010 and HUF 0.5 billion paid in 2011 was taken into account.
[e)] Only main provisions.
Source: Central Administration of National Pension Insurance.

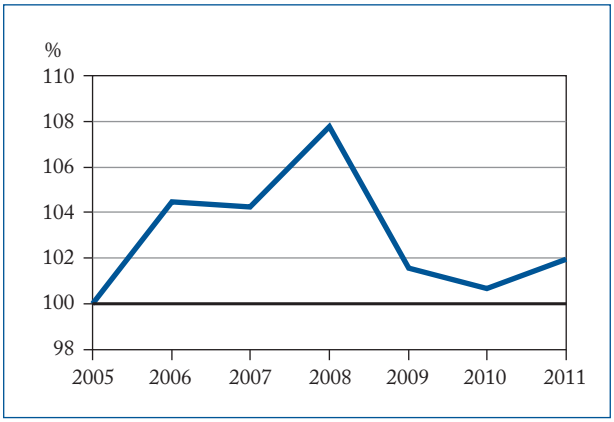
The number of old-age pensioners, who account for six-tenths of all pensioners and pension-type benefit recipients, was 1,737 thousand, almost ten thousand more than in the previous year. The considerable growth in the number of old-age pensioners was strengthened by the introduction of the possibility for women to retire after at least a 40-year-long period of entitlement. While the number of disability pensioners above retirement age increased by 13 thousand over one year, the number of those below retirement age fell by 43 thousand in 2010 and by another 37 thousand in 2011 due to the stricter regulations.

In 2011, the number of **new pension awards** was outstandingly high compared to the average in the past few years, and compared to 2010, a 37% rise occurred. Within this, the number of new old-age pension awards – including early retirement pensions – was two and a half times as many as earlier, which was influenced significantly by the introduction of the possibility of early retirement for women after at least a 40-year-long period of entitlement. At the same time, due to the stricter rules of disability retirement, the number of disability pension awards and pension awards made for employment policy reasons diminished.

The **average monthly amount per recipient** was HUF 91,292 in 2011, nominally 5.7% and in real value 1.9% (along with a 4.4% consumer price rise for pensioners) more than in the previous year.

Figure 2.3

Changes of real pension
(2005=100%)



The average monthly amount of the provision per recipient corresponded to 64.7% of average net earnings in 2011, while this proportion was 65.1% a year earlier. The major reason for this was the higher rise in net earnings resulting mainly from the changes in the tax system. In EU comparison, according to 2009 data, Hungary belonged to the bottom one third of the ranking in respect of pension **per capita,** which hardly exceeded the half of the EU average.

The effect of the increasing life expectancy

At the time of the establishment of state pension schemes after the war, both retirement age and life expectancy were 65 years in most of the countries. As a consequence of the improving health care system and favourable living conditions, the number of years spent in retirement grew considerably, while in the developed world much fewer children are born and the future generations are definitely smaller than the older ones. According to projections, by 2040, the difference between genders will have remained, and in the OECD member states, the life expectancy of men at the age 65 will have risen to 83 years and that of women to 87 years[6]. In every country, experts suggest encouraging work for a longer time and/or raising retirement age. In Hungary, the number of expected years in retirement was 16.5 years in 2010, and this number is increasing year by year. Within this, the average number of years in retirement is 18.2 years for women and 14.1 years for men.

Since the turn of the millennium, retirement age has been raised in each country, and the difference between the retirement age of men and women is maintained only in three countries, in Poland, Italy and Switzerland. The rise in retirement age does not follow the expected growth in life expectancy in the majority of countries, and this increase is taken into account only in Denmark. The highest retirement age, 68 years was announced in the United Kingdom followed by Germany and Denmark with 67 years. In the Czech Republic, Greece, Hungary and Turkey, retirement age is 65 years, which, up to the generation born in 1956, is introduced gradually.

[6] *Source*: Kovács Erzsébet: A nyugdíjreform demográfiai korlátai (Demographic limits of the pension reform), in: Hitelintézeti Szemle 2010/ 2. pp. 128–149.

The gradual aging of the population and the declining share of young people jeopardize the sustainability of the pension scheme on the long run. Pension expenditure was HUF 3,178 billion in Hungary in 2011, 4.4% more at current prices than in the previous year. This amount accounted for 11.3% of the GDP.

Due to the uncertainty resulting from the economic crisis and the present state of the economy, as well as to the weak regular income-producing capacity resulting from the low employment and high unemployment in the age groups of working age, pensions – because of their regularity and predictability – seem to be invariably the most stable income. At the same time, the **income situation of pensioners** is also characterized by extremities: the difference between the lowest and the highest income quintile is more than four-fold in respect of net income.

In 2010, the net annual income per capita of pensioners was HUF 1,017 thousand, 8.3% higher than the national average. Compared to 2009, this amount increased nominally by 5.2% and in real terms by 0.7% along with a 104.5% consumer price index for pensioners.

The effect of family supports on the situation of households with children

In more than one-third of Hungarian households, one or more children were being raised in 2010, and the average number of household members in these families was 3.9. In the most frequent household types, the proportion of those with two adults raising one child and those with two adults and two children was the same, 27% each. The family support system endeavours to mitigate the income disadvantage of households with children against childless households.

The **family support** system contains benefits paid on a universal basis and insurance-based benefits as well. In 2011, the rules of family supports changed in a number of aspects, which influenced the amounts of provisions. With the new rules of family tax benefit, elements supporting families in having more children were built into the tax system as well; however, their effect on the number of births is to be seen only on the long run. Connected partly with the fall in the number of births, the circle of support recipients narrowed. The real value of provisions decreased except for the insurance-based pregnancy and confinement benefit and child-care benefit.

In order to mitigate the difficult demographic situation, the period of **child-care allowance** was prolonged again from two to three years along with the restriction of working during this period. In 2011, their effect was not yet perceptible, for the number of families making use of this support decreased by 4.9% compared to 2010. The amount of child-care allowance equals the minimum old-age pension and has been unchanged, HUF 28,500 since 2008, while its real value has been decreasing year by year. The number of families making use of the insurance-based **child care benefit** fell considerably (by 7.5%) over one year. In line with the prolongation of the period of child-care allowance, from 2011, child raising support may be claimed again after the third birthday of the youngest child. Similarly to child-care allowance, the number of families making use of this support diminished. The average monthly number of families receiving **family allowance** was 1,191 thousand in 2011, and the average number of children raised in these families was 2 (1.6). The number of recipients diminished by 2.7% over one year, while the real value of the provision decreased nearly by the rate of inflation.

In 2010, the annual net income of **households with children** was HUF 752 thousand, four-fifths of the national average. Compared to childless households, the backlog is even higher: the income of households with children is only 64% of that of childless households. One of the reasons for this income difference is that among childless households, pensioners with a relatively stable income account for a considerable proportion. In case of households, economies of scale is an important factor as well, since the actual income situation of a person is largely influenced by the number and income situation of those living in the same household. As a part of household expenditure (first of all costs connected with housing and food) does not increase in direct ratio to the size of the household, in parallel with the increase in the number of household members, the disposable income per capita is higher and higher.

Table 2.3

Family supports, 2011

Family support	Recipients,		Average monthly amount of support, HUF	Change in nominal value	Change in real value
	average monthly number	previous year=100.0		previous year=100.0	
Pregnancy-confinement benefit	24,736	90.6	121,342	105.9	101.9
Maternity allowance	7,033	97.0	65,853	99.7	95.9
Child-care benefit	87,615	92.5	84,929	104.4	100.5
Child-care allowance	169,721	95.1	30,929	101.8	98.0
Child raising support	37,829	96.3	28,993	101.9	98.0
Family allowance[a)]	1,190,707	97.3	24,528	100.4	96.6

[a)] Per family.

Nowadays, having children is one of the most significant risks of poverty, and in parallel with the rise in the number of children, the per capita income diminishes. The income of households with two adults and two children is 83% of the national average. The disposable income per capita is the least in households with two adults and three or more children, thus, the income equalizing role of social incomes is the strongest in these households, where the proportion of social incomes is more than 30% of gross income.

Households with small children[7)] are even more affected by poverty: in 2010, their annual net income per capita was HUF 707 thousand, 28% less than the national average. The principal reason for this is that among households with small children there are much fewer households with two earners, since one of the parents is typically inactive, i.e. is on child-care leave. 65% of people living in households with small children are inactive, while this proportion is 55% in all households on the average. In respect of living conditions and housing situation, families with small children live generally more crowded, while a relatively high proportion of single-parent households lives in rented one-room dwellings, which are mostly supported.

The reduction of social transfers in kind stopped

A smaller proportion of social income is represented by social transfers in kind; their major elements are health and social care, education, and the support of culture, sports and some other similar activities. The main function of social transfers in kind is to help decrease the income inequalities of households and differences deriving from their place in the society. The real value of social transfers in kind diminished continuously in the past few years: after the 3.5% fall in 2009, it decreased by another 3.2% in 2010 year on year. According to preliminary data, social transfers in kind from the general government, accounting for nearly nine-tenths of all social transfers in kind, rose by 0.5%, while those received from non-profit institutions serving households declined slightly, by 0.3% in 2011 compared to the previous year.

Financial assets of households*

Financial assets of households decreased in 2011

At the end of 2011 the **gross financial assets** – i.e. those including liabilities – of households were HUF 27.2 trillion, 5.9% less than one year earlier. The decrease, which may be connected to the transformation of private pension schemes, had followed an upward trend in the preceding years, for growths of 8.6% and 5.9% were registered in 2009 and 2010, respectively. At the end of 2011, 39% of gross financial assets were accounted for by the group of cash and deposits, the stock value of which was 7.2% higher than one year before. Within the group the stock of current account

* *Source*: National Bank of Hungary.

[7)] Households with 0–6 year-old child(ren).

deposits, approximating HUF 2.1 trillion, was 12% higher than a year earlier, while the increase in case of other deposits, amounting to HUF 6.2 trillion, was 5.3%. In the second half of 2011 the stock of cash in HUF rose by HUF 356 billion and the stock of HUF deposits by HUF 501 billion, which may have been influenced by payments of real returns in connection with withdrawals from private pension funds, and then by economic transactions concerning the early repayment of foreign currency loans. The stock of cash in HUF amounted to approximately HUF 2.3 trillion at the end of 2011, with which households held some five-sixths of cash in circulation. The value of foreign currency assets at the end of 2011 was HUF 1.9 trillion, within which the most significant group (HUF 1.5 trillion) was represented by foreign currency deposits. In the past few years the stock of foreign currency securities rose considerably, its value was HUF 260 billion at the end of 2011. The proportion of shares (of ownership) was the same as that of cash and deposits, 39% of gross financial assets, and their stock value was 2.6% higher than at the end of 2010. Out of the saving forms thereof the value of stakes – with a stock of HUF 6.7 trillion – rose by 5.0%, while the stock of investment fund shares fell at about the same rate, and came to HUF 2.2 trillion at the end of the year. The stock of insurance technical reserves decreased very substantially, by nearly a half. The fall was predominantly related to members' leaving private pension funds, as a result of which financial assets of the value of HUF 2.7 trillion were transferred from households to the general government as capital transfer. According to the relevant legislation the fund membership of those leaving funds ceased on 1st March 2011. The stock of pension fund reserves was HUF 1.1 trillion at the end of 2011, compared with HUF 4.0 trillion one year before. In contrast, the stock of securities other than shares[8)] was up by 8.6% over a year, its value amounting to HUF 1.7 trillion. Within this group the stock of long-term and short-term securities was HUF 1.0 trillion and HUF 714 billion respectively, while the corresponding rates of increase were 4.8% and 14% respectively.

Table 2.4

Financial assets of households

Denomination	At the end of 2011, billion HUF	Distribution, %	Change compared to the end of the previous year, %
Cash and deposits	10,672.0	39.2	7.2
Securities other than shares	1,729.8	6.4	8.5
Loans	266.5	1.0	3.5
Share of ownership	10,532.3	38.7	2.6
Insurance technical reserves	3,036.6	11.2	–49.4
Of which:			
life insurance premium reserves	1,610.0	5.9	–3.4
pension fund reserves	1,119.2	4.1	–72.1
Other assets	970.6	3.6	14.6
Gross financial assets of households	**27,207.9**	**100.0**	**–5.9**
Loans	10,419.2	94.0	–1.6
Of which:			
real estate loans from credit institutions	4,266.9	38.5	–2.5
consumer and other loans from credit institutions	4,277.9	38.6	0.8
other loans	1,874.4	16.9	–4.5
Liabilities of households	**11,083.7**	**100.0**	**–1.3**
Net financial assets of households	***16,124.1***	**–**	***–8.8***

Early repayment and fixed exchange rates: foreign currency liabilities declined somewhat among liabilities

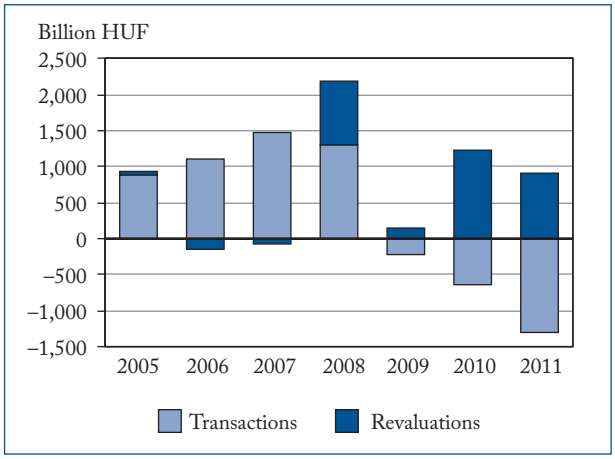
The value of **liabilities** was HUF 11.1 trillion at the end of 2011, 1.3% less than one year before. 34% of liabilities were represented by HUF loans and 60% by foreign currency loans. The share of foreign currency loans within liabilities diminished by 3 percentage points over one year, and that of HUF loans grew at the same rate. (Considering the values of the stocks a decline of 6.0% was observed in case of foreign currency loans in 2011 compared with a 7.3% growth in respect of HUF loans.) The change of legislation on foreign currency lending also contributed to this, enabling consumers having a foreign currency loan contract to repay early the

[8)] The group includes for the most part interest-bearing securities embodying a loan relationship (government bonds in HUF and foreign currencies, treasury bills, bonds of local governments, debentures of companies and credit institutions etc.).

remaining part of their liabilities at a fixed exchange rate, lower than the market rate, in the last quarter of 2011. The other measure of great significance was the introduction of fixed exchange rates, which enable – under the terms of a provision made already this year – foreign currency loan debtors making payment to request until the end of 2012 for the repayment of their loan at a favourable exchange rate level during 5 years but at most over a fixation period lasting until the end of June 2017. (The liability generated from the difference between the market exchange rate and the favourable exchange rate, increased with interest charges, shall be kept on collective HUF accounts by credit institutions, which foreign currency loan debtors shall pay later on.) Both measures fixed the exchange rate level of the forint at 180 against the Swiss franc, at 250 against the euro and at 2 against the Japanese yen. (More than the half of the value of new loans contracted in Swiss franc, the most widespread foreign currency of borrowings, in 2004–2010 and in the first half of 2011 were borrowed at exchange rates between HUF 150 and 160, and some one-quarter at exchange rates between HUF 160 and 170.) As a consequence of financial transactions the stock of foreign currency loans was down by HUF 1.3 trillion in 2011, within which the amount of decrease was HUF 776 billion in the fourth quarter. The process of early repayment of foreign currency mortgage loans at favourable exchange rates was closed on 29th February 2012. Based on data disclosed by the Hungarian Financial Supervisory Authority some 170 thousand household loans were repaid, with the redemption equal to HUF 1,355 billion. Calculated in foreign currencies 23% of the foreign currency mortgage loan stock, reaching HUF 5.6 trillion back at the end of September 2011, was repaid by households at favourable exchange rates. Some one-third of the realized early repayments were financed by redemption (HUF) loans. (As an impact of financial transactions a growth of HUF 300 billion was recorded in the stock of HUF loans in 2011.) The early repayment scheme caused a net loss of some HUF 260 billion for the financial institutions providing the loans, and at the same time it was a significant factor of the negative pre-tax profit of the sector of credit institutions at

Figure 2.4

Major components of change of foreign currency loan stock of households



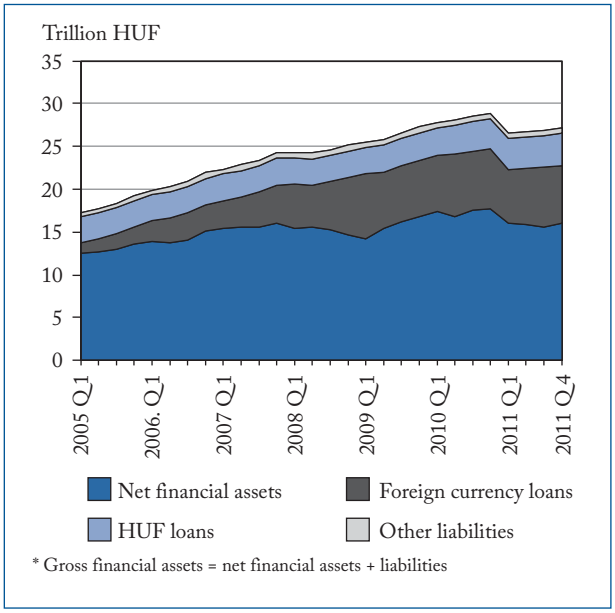
the end of 2011. In the last quarter of 2011 the proportion of non-performing household loans – assets due over 90 days – was 15% in the banking system, 4 percentage points higher than one year earlier.

According to Figure 2.4 the stock of foreign currency loans decreased – because of the transactions, i.e. as a consequence of the value of repaid maturing loans surpassing that of newly borrowed ones – in 2009–2011, and the rate of decline grew year by year. However, revaluations had an opposite effect, which more than offset in 2010 and substantially lowered in 2011 the stock-reducing impact of financial transactions. This latter trend was related first of all to the exchange rate of the forint, which was 22% and 15% weaker compared to the Swiss franc at the end of 2010 and 2011, respectively, than one year before, considerably enlarging repayment burdens on borrowing households, and reducing the financial resources available for consumption and savings. (At the end of 2011 the exchange rate of the forint was 68% weaker compared to the Swiss franc than four years earlier.)

Net financial assets, i.e. the difference between gross financial assets and liabilities, amounted to HUF 16.1 trillion at the end of 2011, 8.8% less than one year before. The decline followed a trend of growth in the preceding years, since increases of 15.0% and 5.1% had been measured for 2009 and 2010, respectively. The fall of pension fund reserves – already mentioned above – can be highlighted as the main reason for the decrease of net financial assets.

Figure 2.5

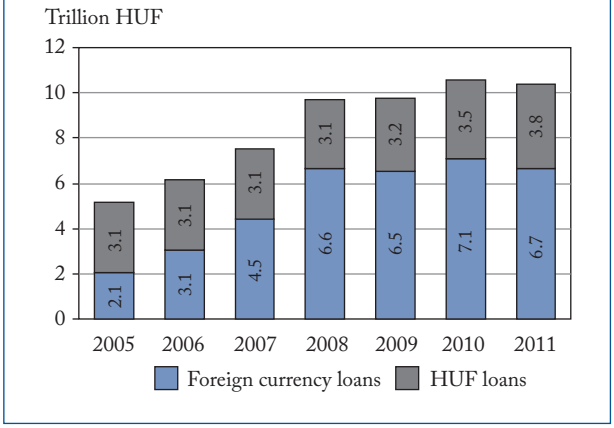
Gross* and net financial assets of households, and composition of liabilities



At the end of 2011 the per capita stock of financial assets (gross financial assets) was HUF 2 million 731 thousand, the value of liabilities HUF 1 million 113 thousand, and net financial assets HUF 1 million 619 thousand in Hungary. This latter amount was equivalent with about 11 monthly average net earnings[9].

Figure 2.6

Loan stock of households by foreign currency
(stock value at the end of the year)



The **net financing need of households** was HUF 1,210 billion in 2011, 4.3% of GDP. Disregarding the capital transfer because of withdrawals from private pension funds the sector had a financing capacity. Its size was HUF 1,468 billion last year, which equalled 5.2% of GDP. (The sector had a financing capacity of 3.8% of GDP in 2009 and of 4.4% of GDP in 2010.)

Household consumption

Over five years, consumption decreased by one-tenth in volume

Changes in household expenditures and their structure are one of the most important indicators in measurement of the population's standard of living. In the post-millennium years, the outflow and the sharp rise in real incomes resulted in a consumption hike. The growth domestic demand in such a structure proved to be unsustainable and, though after a certain time lag, it entailed measures aiming to restore the balance. From autumn 2006, measures introduced to lower the government deficit resulted in a significant slowdown in the growth rate of incomes and expenditures. From 2007, along with the government measures aiming to improve the balance, only a slight drop occurred in consumption, first of all due to easily available consumption, car-financing and discretionary mortgage loan options. Such type of household indebtedness was directly deepened by the desire to preserve the consumption level. The global financial, then economic crisis, engulfing Hungary in autumn 2008, changed the tendencies fundamentally. After the stagnation of 2008, a significant fall was seen in actual consumption of households in 2009, mainly as a result of the crisis-induced shock (rising unemployment) and government austerity measures (cancellation of 13th month bonuses and pension, VAT rises). In 2010, a further increase was observed. In 2011, the decline lasting for years came to an end: the actual consumption of households saw no significant change year on year (+0.1%), as a result of the combined effects of transfers, which was corroborated

[9] Calculated from average earnings in December 2011, not including family tax benefit.

by changes in retail sales. Though real wage rises because of changes in personal income tax and pay-outs of real returns from private pension funds exerted a positive effect on consumption, measures aiming to raise consumption were practically offset by negative effects (household over-indebtedness, depreciating forint exchange rate, the continuation of the crisis).

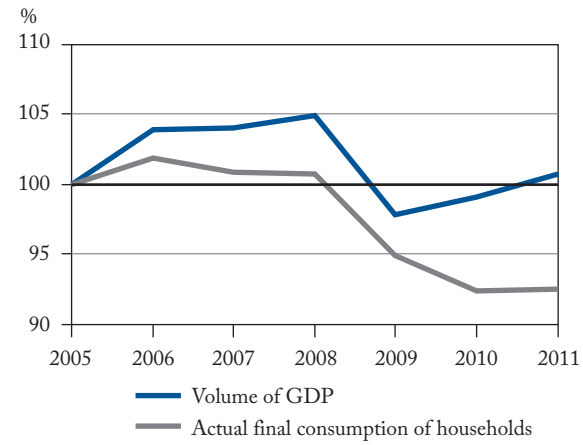
Household consumption expenditures and social transfers in-kind account for four-fifths and one-fifth, respectively, of the actual household consumption. In 2011 the volume of household consumption expenditures remained unchanged, while that of social transfers in kind ensured by the government slightly increased year on year (+0.5%), but transfers from non-profit institutions serving households were lower (-0.3%) than in 2010. All in all, the volume of actual household consumption rose by 18% compared with the turn of the millennium but was 2.6% lower than in 2009.

Hungarian society continues to have limited options in consumption

The volume and structure of consumption expenditures allows us to draw conclusions on the standard of living in a given country. In addition to incomes, consumption patterns and prices exert a significant influence on the structure of consumption in a certain country. In international comparison, the proportion of household food expenditures is relatively high in Hungary, limiting other expenses, e.g. those on culture, recreation and accommodation services. The past years saw a significant change in the **structure of consumption**. Data of 2010 are available on the structure of consumption; preliminary household statistics and retail sales data allow making deductions on household consumption in 2011. In line with international trends, expenditures on food and clothes decline in proportion in the long run. In 2010 – based on household statistics – per capita total household consumption stood at an annual average of HUF 760 thousand, a 3.2% drop year on year at constant prices. Compared with 2005, annual consumption increased by a nominal 18%, which in real terms means a fall of approximately one-tenth. In 2010, food and non-alcoholic beverages accounted for 23% of household expenditures; this was 1.5% less in real terms compared to the preceding year, along with a 2.8% price rise in food and non-alcoholic beverages. In 2011, despite a significant price rise, food had an inflation-adjusted 0.4% rise in retail sales, influencing the food consumption of households.

Figure 2.7

Changes in consumption and GDP
(2005=100%)

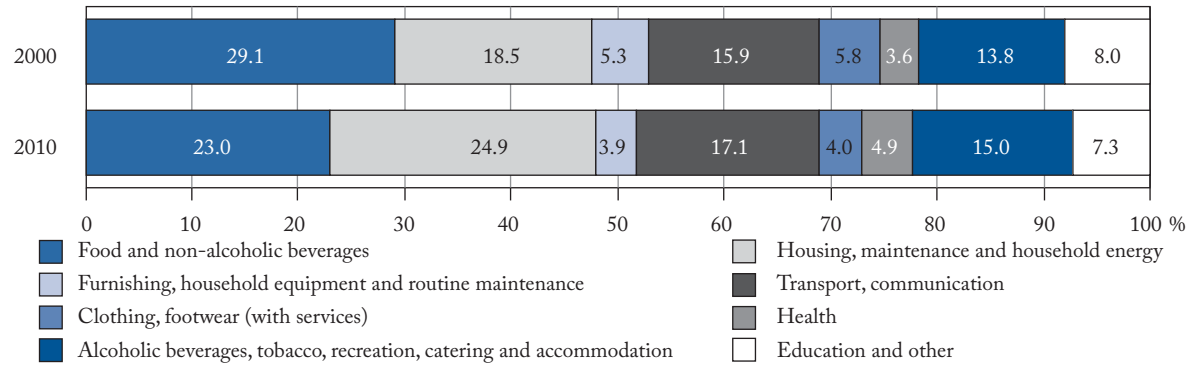


The share of expenditures spent on housing, maintenance and household energy continues to grow year by year; similarly to the previous years, these also accounted for the biggest part of household expenditures in 2010. (The prices of household energy are more than two and a half times as high as they were 10 years before.) On 2009, expenditures on housing, maintenance and household energy increased by 1.7% in real terms. Along with a rise in housing expenditure, expenditures on other goods continued to narrow in the structure of household expenditures. Over a year, telecommunication expenditures declined by 2.8%, while a 4.9% rise was seen in household expenditures on clothing and footwear.

The difference between the consumption of the richest and the poorest is still considerable: the top

Figure 2.8

Structure of per capita expenditures



income decile spent four times as much on consumption on average as the bottom decile. Expenditure on food showed a narrower gap than the average, the difference is twofold in this group, while a significant gap was seen in expenditures on culture, transport as well as on catering and accommodation.

Outstanding differences by region and type of settlement, residents of the capital are in the best position

Concerning the consumption expenditures of households, it is important to emphasize the role of significant regional differences. Over a year, Southern Transdanubia and Northern Great Plain saw the sharpest fall in consumption, predominantly as a result of the high proportion of economically inactive and unemployed people. In a regional comparison, central and Transdanubian regions were also outstanding in the volume of consumption expenditures, first of all as a consequence of the favourable economic structure and the higher concentration of foreign direct investments. In terms of consumption expenditures, the difference is one and a half-fold between Central Hungary and the most backward Northern Great Plain.

There are significant differences in consumption by type of settlement as well, mainly as a result of divergent development levels and labour market situation. The per capita consumption of Budapest households was more than one and a half times as high as that of villagers. In 2010, only Budapest residents were able to achieve tangible rise in expenditures.

Table 2.5

Regional differences in consumption per capita, 2010

(%)

Region	Per capita consumption expenditures as a percentage of the national average	Share of food and housing expenditures of all expenditures
Central Hungary	121.9	45.0
Central Transdanubia	95.0	48.6
Western Transdanubia	92.7	48.9
Southern Transdanubia	87.6	49.8
Northern Hungary	88.0	49.5
Northern Great Plain	84.5	49.5
Southern Great Plain	97.5	51.0
Total	**100.0**	**47.9**

Families endeavour to put their children's needs in the first place

The consumption expenditures of households are fundamentally determined by whether there are children raised in the respective household. The **consumption of families with children** reached three-fourths of the average of all households. The backlog is especially significant in case of food consumption and housing as well as health expenditures. The children's lower calorie needs as well as a con-

scious budget cutting are the backdrop to the lower food consumption. (Housing expenditures show lower per capita figures due to the higher number of family members.) In contrast with this, families with children only slightly differ from the average in certain categories (e.g. clothing) and even have a higher spending in certain categories (e.g. books, recreation and sport services), since families try to prefer the needs of the children to that of the adults.

In 2010, per capita expenditure diminished in case of each type of households with children in real terms. The family tax allowance introduced in 2011 aims to improve the financial conditions of families with children, which may narrow the income and consumption differences between households with and without children.

Price changes exerted a smaller influence on pensioner consumption in 2010 and a bigger one in 2011

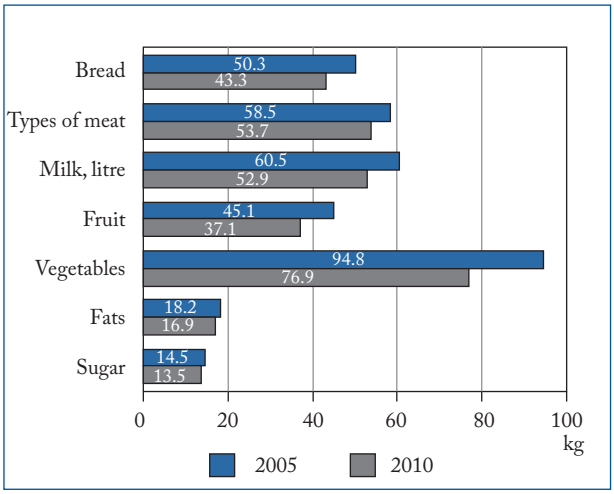
In 2010, there was no year-on-year change in the per capita consumption expenditures (HUF 880 thousand) of **pensioners** in real terms. One of the reasons for this was that expenditure on food, housing and pharmaceutical products, which have a larger weight in the consumption structure of pensioners, saw only a price rise close to the average inflation, in contrast with higher price rises in fuels and transport, the changes of which influence pensioners' consumption to a lesser extent. However, in 2011, a considerable price rise was seen in items, e.g. food and household energy, which may exert a significant influence on the consumption and consumption structure of pensioners.

Vegetable and food consumption continued to decrease

Food consumption strongly reflects the financial conditions of households, the volume data of food make follow-ups possible in the change of the standard of living. The Hungarian population spent an average of HUF 160 thousand per capita on food consumption in 2010, 1.8% less in real terms year on year. While a fall was seen in consumption from own production, the significance of eating out continued to grow, mainly as a result of food vouchers. Nevertheless, in 2011, a considerable transformation started in the system of non-wage benefits, which, at first, mainly affected public employees, their per capita non-wage benefit budget having been maximized at HUF 200 thousand in 2011.

Figure 2.9

Changes in annual food consumption per capita



2010 saw a drop in vegetable and fruit consumption; a sharp price rise of seasonal food strongly contributed to this. However, in the long run, a gradual shift can be seen into the direction of health-conscious eating habits.

Gradual technological development and modernization was characteristic of the stock of durable consumer goods

The equipment of households with durable consumer goods is improving year by year, approximating complete coverage in case of several devices. More modern and more efficient devices gained ground against their older and more outdated predecessors along with an increase in the importance of energy efficiency and environment-consciousness. During the past few years, more and more new devices were introduced into the market. The development of **durable consumer goods** serves the modernization of households. One group of modern devices is to fa-

cilitate household management, e.g. the dishwasher, with which one in five households is equipped; while the other group of them includes devices with educational and entertainment functions. In 2010, the overwhelming majority of households had a microwave oven; nearly all households had a washing machine and television and 87% of households had a mobile phone. Nearly half of the households had a passenger car, though this figure is still rather low in EU comparison in spite of a continuous improvement.

Table 2.6

Stock of durable consumer goods per hundred households

Denomination	2005	2009	2010
Refrigerator	75	65	62
Fridge and freezer	33	40	43
Microwave oven	75	86	87
Dishwasher	6	9	11
Television, colour	140	151	154
Of which: plasma, LCD	..	8	13
Digital camera	11	30	34
DVD player	24	52	55
Home theatre system	..	9	9
Video game console	3	4	3
Desktop computer	37	50	51
Portable computer	..	14	19
Mobile phone	140	176	178
Passenger car	53	55	57

There are more significant differences concerning equipment with durable consumer goods, when monitoring households by age composition, since different age groups have different needs. Along with this, informatics and entertainment electronics devices as well as passenger cars are less widespread among the elderly. While the household expenditures of families with children are lower than the national average, in many cases more of them are supplied with durable consumer goods, mainly as a consequence of lifestyle differences.

Evaluation of own material status

The issue of how much income a household considers necessary to sustain various standards of living is in close connection with the income position of the given household. In 2011, a per capita monthly net sum of HUF 118 thousand was considered necessary by households to sustain an average standard of living; 7.3% more than a year before. In contrast with this, the total consumption of the population was a monthly average of HUF 64 thousand per capita. A sum of HUF 68 thousand would be required for a very modest standard of living and HUF 218 thousand for a very good one. In case of households belonging to the lower income deciles, the required amount to sustain an average standard of living was only nearly the half of that required by those in the upper income deciles.

Households, due to their **strained financial circumstances**, saw a decline in their standard of living in the past years. The difficult financial conditions of households is shown by the fact that in 2010 more than one-fourth of households – based on their own account – had difficulties in making ends meet, while the respective figure was only one-tenth in 2005. All in all, more than 90% of the population faced smaller or larger difficulties in meeting expenses.

In 2010, two-thirds of the population could not afford to make an at least one-week-long family trip once a year, nearly one-third of them could not afford to consume meat at least every other day. Year by year, there is a rise in the number of households reporting financial difficulties in meeting the heating costs of the dwelling, the respective figure was 11% in 2010. Expenditures on housing meant a very heavy burden for 42% of the population, and an occasionally heavy one for an additional 52% of them. (In 2006, the respective figures were 29 and 54%.)

Despite the deteriorating standard of living caused by the crisis, inequalities in household consumption have not increased, the difference between the highest and lowest income deciles even decreased

[10] Preliminary data and annual final data are different in several respects. Annual data are calculated based on annual consumption per capita, while preliminary data reflect monthly quantities (so the less frequent items are not included). There is a significant difference when data are classified into the income quintiles, so preliminary data are compared to the preliminary data of the previous year as appropriate.

slightly. (In 2008 the difference was 4.2-fold, while in 2010 the respective figure was 3.9-fold.)

Own production gained ground again along with a rise in food prices

In **2011**, based on preliminary data[10], the per capita monthly consumption expenditures of households were HUF 64 thousand, a 2.7% rise in value but a 1.2% drop in volume year on year. As a consequence of a sharp rise in food prices, food consumption saw an even steeper fall of 2.7% in volume. After paying out the expenses related to everyday needs (food, housing, and transport expenditures related to going to school or workplace) less than 40% of household incomes remained to cover all the other expenses. As a result of the unfavourable money market events in 2011, one part of the households reacted with a self-imposed reduction in consumption, which could not be counterbalanced even by an increase in household purchasing power. Household consumption also shows a varied picture by type of settlement: households in the capital have a consumption level higher than the national average and this difference increased slightly over the last year. At the same time, the residents of the capital had only a slight advantage in terms of food consumption. It was typical that households supplemented their food consumption with food originating from own production: its share reached 9.6% of the total food consumption in 2011, which was 0.2 percentage point higher than in 2010. The significance of own production was greater in the countryside: this figure was 0.7% in the capital, 9.4% in other towns and 18.7% in the countryside. The financial conditions of households exerted a significant influence on the share of food originating from own production: in households the income of which was in the highest quintile, food originating from own production accounted for 3.8% of food consumption, while in those in the lowest decile, for 13.9%.

Three in ten Hungarians are exposed to the threat of poverty and social exclusion[11]

Fight against poverty is very important to enhance economic growth and development in a given country, therefore one of the main objectives of the Europe 2020 strategy is to reduce social exclusion and poverty.

In 2010, 23% of the EU's population was exposed to the threat of poverty or social exclusion. It means that these households fulfil at least one of the three following conditions: income below the poverty threshold characteristic of the respective country, serious material deprivation, as well as low labour intensity.

In 2010, 16% of the EU population earned less than the poverty threshold, even if we include social benefits[12]. In Hungary, the relative poverty with a 12% rate is considered low compared with the EU average.

In 2010, 8.1% of the EU population suffered from serious material deprivation, which meant for instance that due to their conditions they could not afford to pay their bills, keep their dwelling at an adequate temperature or make an at least one-week-long holiday trip. In Hungary, this indicator was high (22%), we are at the 4th place in an EU comparison.

One in ten EU citizens lived in a household where adult family members spent less than 20% of their total potential labour time working. In Hungary this share is 12%, which is corroborated by low employment, high unemployment and inactivity.

Poverty rate, calculated on the basis of the three indicators was 30% in our country, i.e. one-third of the Hungarian population was threatened by relative income poverty or social exclusion. This proportion continued to deteriorate somewhat compared with 2009, and in 2010 we were at the fifth place in the poverty ranking of EU member states. Based on poverty statistics the Czech Republic was in the best situation.

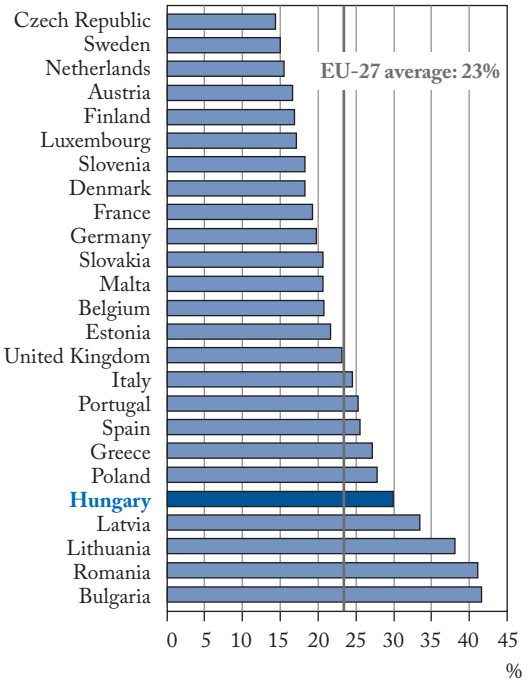
Children aged less than 18 were in an even more serious situation, 27% of children in the EU on average were exposed to the threats of poverty or social exclusion. In EU member states this share was 23% in working-age population (aged 18–64) and 20% among those aged 65 or over.

[11] *Source:* At risk of poverty or social exclusion in the EU27, Eurostat News Release, 8th February 2012.

[12] Poverty threshold is 60% of the median income, so the proportion of those who live below it indicates relative poverty.

Figure 2.10

Rate of poverty or social exclusion in the European Union, 2010



Culture

More than two hours TV-watching per day

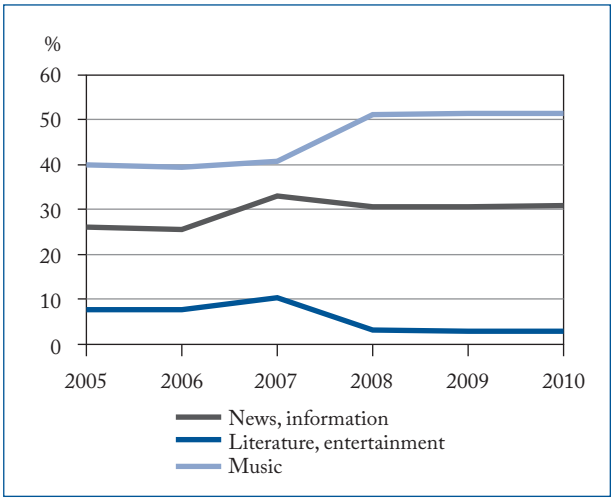
According to the findings of the time-use survey of 2010, we spent around three hours doing some cultural activity out of the average leisure time of four and a half hours per day, however, TV-watching accounts for the majority, three-tenths of this (139 minutes on average). Since the last time-use survey ten years earlier, internet use has been perceivable in the leisure activity of Hungarians. Taking into account that in international comparison our internet penetration is still rather low, it is not surprising that it is no rival to the television in a national context, it has significance only among actual users (however, users have an average of 92 minutes per day).

Public service television saw no significant change in broadcasting time in the past five years and a slight rise of 1.7% between 2009 and 2010. Nevertheless, there have been changes in the distribution of broadcasting time by type of programme. From the mid-period, 2007, the share of news and information of total broadcasting time decreased, then it approached the previous level from 2009, amounting to a total of 8,883 hours in 2010, which was 34% of total broadcasting time. Music programmes have expanded in proportion between 2006 and 2010.

In contrast with television, **public service radio** had its broadcasting time rising in the observed period (it expanded by 29% between 2005 and 2007, then dropped by 9% the next year and stagnated since then). By type of programme, music, news and information increased in broadcasting time by 52% and 39%, respectively, over six years. At the same time, literature and entertainment had a considerable fall of 58% in broadcasting time.

Figure 2.11

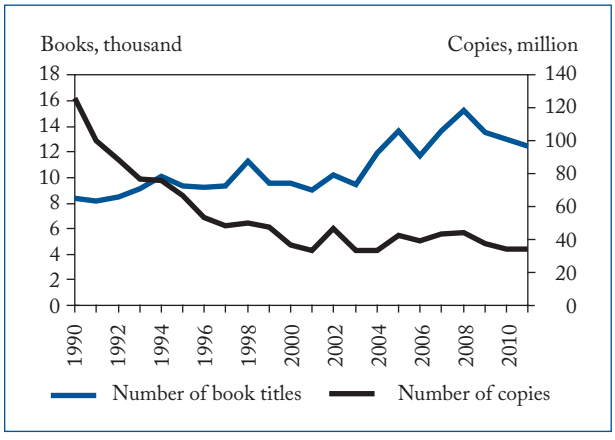
Proportion of main types of programmes in the broadcasting time of public radios



The Hungarian population spent an average of 20 minutes reading per day; around 26% of the population aged 10-84 are regular readers. The number of readers and the reading time declined compared with the survey ten years earlier. Book publishing has seen a significant fall in copies of **books** and the diversity of offer since 2008. Pre-crisis years had a rise in offer along with decreasing and stagnating numbers of copies.

Figure 2.12

Number of book titles and copies



The number of book titles was the highest at more than 15 thousand in 2008, the year preceding the crisis in the real economy; since then an 18% fall has occurred in titles. According to the data of the Hungarian Publishers' and Booksellers' Association (MKKE) book sales have continued to decrease for three years at current prices to HUF 59 billion 528 million in 2011.

The number of copies of newspapers, in line with the previous trend and with the exception of some dailies, weeklies and magazines, continued to lessen mainly as a result of the spread of online media.

A wider range of offer and more visits in libraries

Libraries provide cultural and entertainment services for the widest possible range of social strata due to their relative cheapness. Municipal and school libraries account for nine-tenths of the almost eight thousand libraries. Municipal libraries had 3,474 public service units in 2010. Though no significant change was seen in the number of registered users, lending activities, that is the number of library units lent, along with a decline in reading, has been shrinking since the mid-1990s. Libraries, reacting to the changing demand, gradually diversified their activities and now cover lending multimedia and providing online services as well as organizing events. This presumably played a major role in the end of a long-lasting fall of the number of library units lent in 2008, which turned into a slight rise in 2009. The number of registered users in municipal libraries has also continued to increase since 2008; it was 1 million 540 thousand in 2010.

Between 2005 and 2010, the number of **cinema** visits kept falling by 8% to 11 million in 2010. Hungarian movies accounted for 4.7% of cinema visits, a significant drop compared with the earlier years. The number of **theatre** visits decreased by 2% in 2011 to a total of about 4.5 million, in spite of a rise in the number of theatres and a slight growth in that of performances. The number of **concerts** is on the rise with a fluctuation in audience figures; in 2011 it went up to 1 million 170 thousand.

We have 2010 data on **budgetary expenditures on culture.** That year, the government spent a total of HUF 196.7 billion on culture, a 9.7% rise on

How much more did we pay for culture in 2011?

The price of cultural and leisure services went up by 35% on 2005, a rate of growth similar to the rate of inflation, though its rate slowed down in the past years. Within this, in terms of consumer prices, different cultural services changed at different rates: the prices of sports and museum tickets increased by seven-tenths, those of theatre tickets by almost six-tenths, while cinema tickets were an average one-fifth more expensive, reaching nearly HUF 1,300 in 2011. Of cultural products, the price rise books has continued to decelerate since the crisis; however, an above-inflation rise of 4.1% was seen in 2011. In the past few years, newspapers and periodicals saw the sharpest rise in prices: between 2009 and 2011 each year had an over-8% rise.

Table 2.7

Price changes of cultural products and services

Cultural products, services	Change in consumer prices year on year, %
Newspapers, periodicals	+8.5
Books	+4.1
Theatre	+4.8
Cinema	+1.9
Sports and museum tickets	+4.4

2009 at current prices. Book, music and newspaper subsidies (64%) as well as theatre subsidies (40%) expanded the most over a year. Rise in theatre expenditures has partly resulted from a change in the classification and funding system of theatres since 2008 as a result of the enactment of the law on performing arts. As a consequence of this, alternative and private theatres were covered by official statistics, too, resulting in a rising number of institutions.

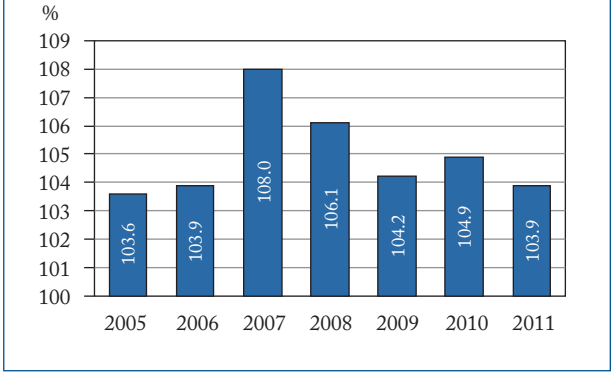
Consumer prices, inflation

The past few years saw a relatively wide range of inflation figures. In 2011, consumer prices increased by an average of 3.9% year on year, the last time when the inflation was so low was five years earlier, in 2006. In 2007, as a result of measures aiming to restore the economic balance (rises in administered prices, tax raises) consumer prices rose at a faster rate, reaching 8.0%. The slowness of the subsequent disinflation resulted from an accelerated price rise in the global markets of raw materials, petroleum and foods.

The reduction in the demand during spring 2009, resulting from the global crisis, played a major role in the deceleration of inflation, so it slowed down to 4.2% in 2009. In 2010, a rise in excise duties, increasing fuel prices and agricultural production losses related to extreme weather conditions fuelled the price rise. On 2005, inflation stood at 35% as a whole.

Figure 2.13

Consumer price index
(previous year=100%)

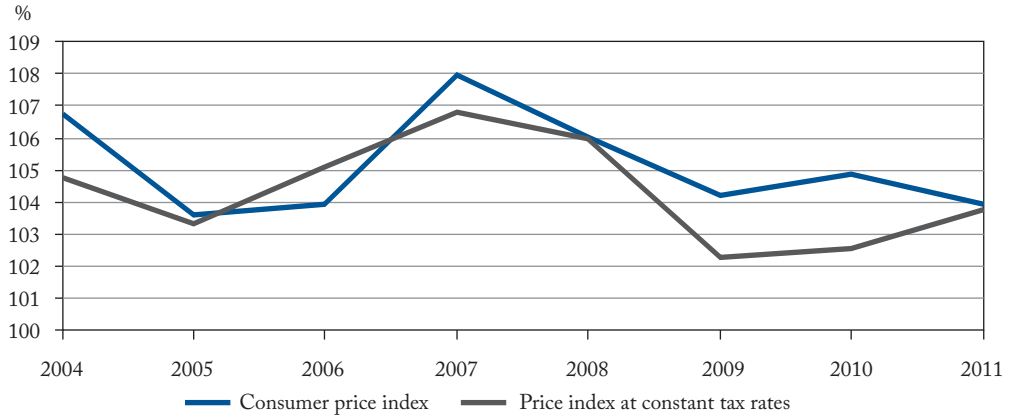


Impact of changes in VAT rates on inflation

In the past decade, in Hungary, VAT rates changed more frequently than in other European Union member states, also influencing changes in inflation. The Consumer Price Index at Constant Tax Rates (CPI – CT) can be of aid to analyze the impact of changes in VAT rates on inflation. This index – calculated by HCSO since 2004 –filters out the effects of changes in indirect taxes (VAT, excise duties, registration tax) from the price change, i.e. it shows how high the inflation would have been at constant tax rates in the given period.

Figure 2.14

Consumer price index and price index at constant tax rates
(previous year=100%)



In 2004, an increase in the lowest VAT rate from 0 to 5% as well as in the general VAT rate from 12 to 15% resulted in a sharp rise in the price level. VAT and excise duty changes implemented at the beginning of the year generated a 2-percentage-point rise in inflation. Price changes in 2006 were strongly influenced by tax modifications, too: at the beginning of the year the former VAT rate of 25% was lowered to 20%, then, from September, products and services previously charged at a VAT rate of 15% were reclassified to the group charged at 20%. In addition to this, rises in administered prices (registration tax and excise duty), aiming to reduce the general government deficit, also influenced the rate of inflation. The reduction in the VAT rate, felt over 12 months, exerted a stronger influence on the annual price level, so the consumer price index at constant tax rates had an annual rise of 5.1%, exceeding the rate of inflation.

In 2007, austerity measures resulted in a significant acceleration in inflation, and tax changes implemented in the previous year also made their impact felt, resulting in a 1.2-percentage-point rise in the consumer price index during the year. However, the modification of indirect taxes had no influence on the price changes in 2008. In July 2009, as a result of the economic crisis, a new preferential tax rate was introduced (18%) and the 20% tax rate was raised again to 25%, resulting in a significant rise in inflation: by 1.9 percentage points in 2009 and by 2.3 percentage points in 2010. According to the 2010 data of Eurostat, revenues from taxes on products – in which VAT is the most important element – were the highest in our country at 16% of GDP, while the respective average was 11%.

The VAT rise of 2009 was followed by another one in 2012: the general VAT rate increased from 25 to 27%.

During the recent years, government revenues form VAT continued to increase at current prices, to the largest extent, by 8% in 2008 compared to the previous year. Compared with 2004, VAT revenues rose by over one-fourth as a whole, within which only 2011 had a drop year on year; in the background of that there were VAT refunds because of an EU decision.

In 2011, inflation was driven by rising food and fuel prices

Changes in food and fuel prices exerted a significant impact on how consumer prices changed in 2011. In the first half of the year, tax modifications of the preceding year and a sharp rise in food prices determined the inflation. July saw the lowest rate of growth in prices with a 3.1% rise year on year. At end of the year, mainly as a result of fuel price rises and changes in the HUF/USD exchange rate the inflation increased, which was further enhanced by a rise in excise duties.

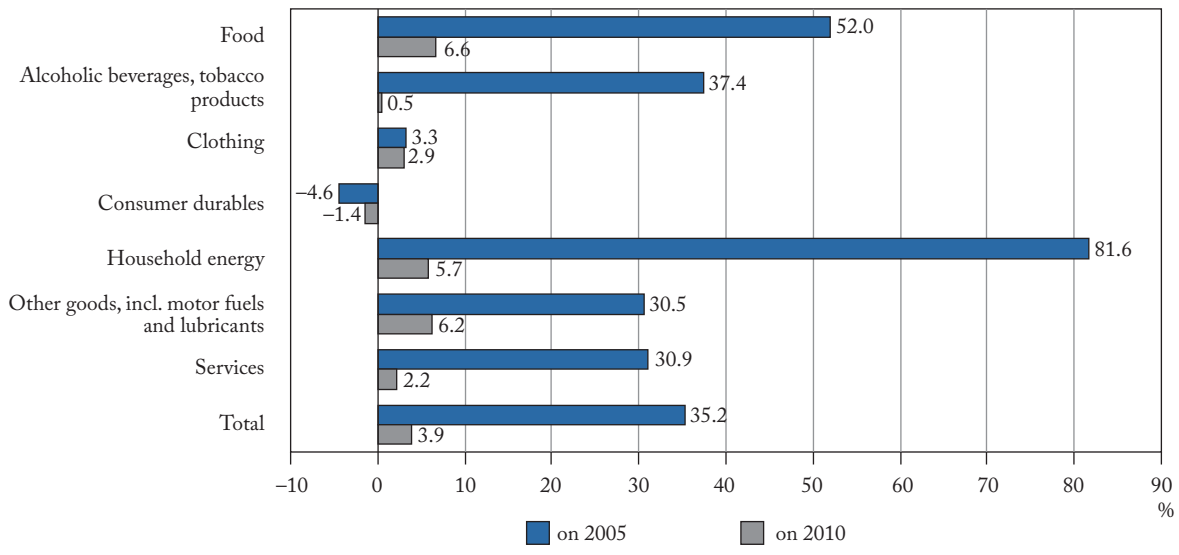
Over the year as a whole the sharpest increase was observed in food prices (6.6%). Within this a nearly one and a half-fold increase was seen in sugar (48%) and flour prices (43%), while edible oil prices increased by one-fifth. Over the year as a whole, the growth rate of seasonal food prices slowed down to 2.4%, the sharp price rise measured earlier during the year turned into a drop from June, which can be explained mainly by price rises resulting from production losses due to bad weather in 2010, i.e. by high base period prices. In addition to agricultural achievements and global market processes, which, e.g., resulted in the rise of cocoa prices, official price measures also made their influence felt in the change of prices of food (e.g. the introduction of a tax on unhealthy food products).

The price of other goods including motor fuels and lubricants increased at an above-average rate of 6.2%. The rise in motor fuel prices was mainly enhanced by an increase in global petroleum prices, fluctuations in the HUF/USD exchange rate and a rise in excise duties, so in 2011 the average price rise was 15%.

The pace of growth in prices of electricity, gas and other fuels was also above the average, reaching 5.7% in 2011, partly as a result of the phasing out of heating benefits as a form of social support (subsidized gas and district heating). After a slight drop in the previous year, 2011 saw a 2.9% rise in clothing and footwear (a new method to calculate the price index of seasonal clothing items played a role in this), while services cost 2.2% more. The excise duty rise in November resulted in an annual 0.5% increase in the price level of alcoholic beverages and tobacco, which was only a fraction compared with that a year earlier. The decline in the price level of durable consumer goods since July 2010 continued invariably in 2011, too, with a 1.4% annual drop in prices.

Figure 2.15

Changes in consumer prices, 2011



The prices of electricity, gas and other fuels showed the sharpest increase on 2005, within which those of natural and manufactured gas increased more than two and a half-fold. Average food prices increased one and a half-fold and were ranked after electricity, gas and other fuel prices, while durable consumer goods saw a 4.6% drop in prices.

Since our EU accession our annual **harmonized consumer price index** has been higher each year than the EU average. 2011 saw acceleration in most of the EU countries, only in 4 member states – including Hungary – was there an annual slowdown measured in inflation. The sharper rise in motor fuels and food was characteristic of the EU as a whole, too.

Low-income people and pensioners were more afflicted by inflation

Price changes affect various groups of the population to different extents because of their differing income levels, and as a result of that, their dissimilar consumption structures, thus in 2011, just like in the preceding years, lower-income households were afflicted by a higher-than-average rate of price change, while active and higher-income households saw an inflation rate lower than the average. In 2011, differences among various income groups of the population were significantly enhanced by a sharp rise in food as well as in household energy, as these groups accounted for an above-average proportion in the consumption structure of low-income households.

Table 2.8

Consumer price indices by different income groups of the population, 2011

(%)

Income group	Previous year=100.0	2005=100.0
Active households	103.7	132.9
Low-income households	104.7	141.2
Middle-income households	104.0	135.7
High-income households	103.3	130.3
Households with 3 or more children	104.1	136.7
Pensioners	104.4	142.2
Households, total	**103.9**	**135.2**

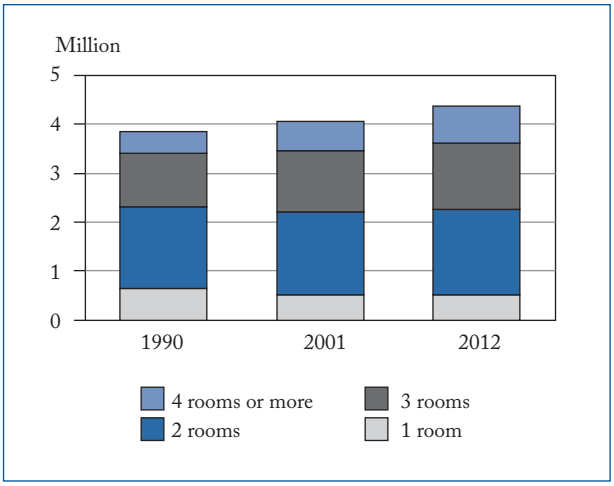
Food, electricity, gas and other fuels as well as pharmaceutical products make up a higher proportion in the consumption structure of pensioners, therefore price changes in these exert a stronger influence on the **pensioner consumption price index**. In 2011, prices rose by 4.4% for pensioners, which was above the average price rise recorded for the whole population. This resulted from the fact that the outstanding rise in food prices exerted a stronger influence on pensioners.

Housing

According to the preliminary data of the census of 2011, there were 4 million 383 thousand dwellings in Hungary, 318 thousand more than in 2001. Central Hungary and Western Transdanubia saw the sharpest expansion in the **housing stock** during the past decade. There was no significant change in the regional distribution: one-third is still in Central Hungary. One in five dwellings is in Budapest, and one in ten in Pest county. Occupied homes accounted for 89% of all dwellings, indicating a rise in the number of vacant or under-occupied (seasonal or otherwise used) homes. In terms of distribution by settlement type of the housing stock the proportion of Budapest continued to grow in the past ten years – although at a minimal pace, while a drop was seen in that of villages. In the composition of the housing stock, as a result of

Figure 2.16

Composition of the dwelling stock by the number of rooms, 1st January



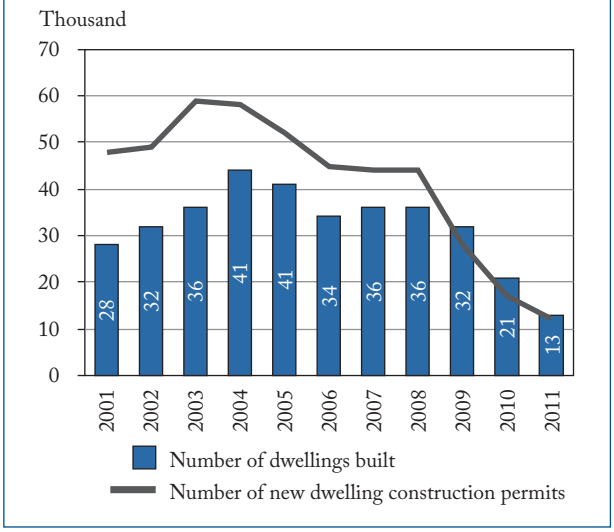
the greater ground-floor area of new homes, there was a shift into the direction of larger dwellings. The proportion of smaller homes continues to be the highest in Budapest; more than two-fifths of rural dwellings have a ground floor area of 80 sq. m or over. Housing density diminished, in 2011, the housing density decreased to 251 inhabitants per 100 dwellings, a decrease of 16 persons on a decade earlier. In Budapest 215 people lived in 100 occupied dwellings, while the relevant figures were 251 and 276 in towns and villages, respectively.

Dwelling construction in doldrums

The **housing** boom of the years after the turn of the millennium has turned into a fluctuating decline since 2005, the 13 thousand dwellings built in 2011 were only three-tenths of that of the high of 2004 (44 thousand). The last two years saw the sharpest fall: year on year, dwelling construction declined by 35% in 2010 and by 40% in 2011. According to the statistics, not even in the years of the interwar economic crisis or in the strained circumstances of the period after the 2nd World War were so few dwellings built. Construction industry suffered the first and strongest strike of the crisis. In this undercapitalized section, dwelling construction had to cope with market saturation, the tightening of credit subsidies and foreign currency credit restrictions.

Figure 2.17

Dwelling construction



In 2009 and 2010, the **number of new construction permits** was lower than the number of dwellings put to use, in 2011, the number of home constructions was the same as that of new permits (12 thousand). The low number of permits projects a further drop in building propensity.

The 3 regions of Western Transdanubia, Southern Transdanubia and Northern Hungary as well as Budapest saw the sharpest fall in dwelling construction with the number of home constructions shrinking by nearly 50%. Some counties (Somogy, Borsod-Abaúj-Zemplén) showed an even steeper decline. Housing stock in Northern Hungary has hardly been rising for years. In Budapest, the number of dwellings built for sale in resident parks diminished the most.

Table 2.9

Dwelling construction per ten thousand residents by regions

Regions	2009	2010	2011
Central Hungary	60.2	36.9	21.7
Western Transdanubia	30.8	24.6	12.5
Central Transdanubia	21.7	12.9	11.5
Southern Great Plain	18.5	14.3	9.1
Southern Transdanubia	21.5	16.9	8.5
Northern Great Plain	19.3	10.2	7.7
Northern Hungary	12.0	8.9	4.7
Country, total	**31.9**	**20.8**	**12.7**

2009 was the only year when the number of dwellings built by enterprises was higher than that of dwellings built by private individuals. The proportions were equal in the following year, in 2011, only one-third of all new dwellings were built by entreprises. The proportion of dwellings built for sale fell from 51 to 38%, a phenomenon also to be ascribed to this. Along with changes in the group and legal standing of builders the average ground floor area of dwellings put to use went up by 11 sq. m to 103 sq. m, while the share of homes larger than 100 sq. m rose from 33 to 42%. In addition to dwellings in resident parks – the proportion of which dropped from 10 to 3% – the share of dwellings put to use in multi-storey and multi-apartment buildings also shrank (from 38 to 34%), while that of detached houses increased (from 46 to 60%). Local authorities built 134 homes, which was only 1% of all dwellings put to use.

In 2011, 2,752 dwellings **ceased to exist**, an 8% increase year on year. Aging was the most frequent cause for cessation.

Fall in the stock of home loans

After the post-2002 growth, the total stock of **home loans** decreased for the first time in the first half of 2011. The changes of 2011 in the home market can be explained by a tightening in the conditions of subsidized forint loans and by the suspension of foreign currency loaning. Both grants and payouts have been decreasing since 2009. As a result of the introduction of the act aiming to support those having a foreign currency loan, state-subsidized home loans and foreign currency loans declined by HUF 107 billion and HUF 172 billion in volume, respectively, by the end of 2011, i.e. the proportion of foreign currency loans diminished from 66 to 63%.

Health

Although life expectancy at birth has slightly risen since the change of regime, life chances in Hungary are worse than in our narrower environment, except for Romania, and than the EU average. One of the main reasons for that is the unhealthy lifestyle of the population – inappropriate nutrition, addictions, inactivity –, and numerous social and socio-psychological factors play a role in it as well.

The number of **deaths** in Hungary, following a three-year-long stagnation from 2008, decreased slightly in 2011; the indicator of 129 deaths per ten thousand inhabitants is similar to the level at the end of the 1970s. In the years of the stagnation, the number of cancer-related deaths of women rose slowly but continuously. Infant mortality improved, and in 2011, the number of infant deaths per thousand live births was 4.9. With this indicator we belong to the bottom of the middle of EU rankings.

Death indicators in Hungary are invariably unfavourable compared to the EU: based on standardized death rates, total mortality is one and a half times as much as the average of the 27 member states, while mortality due to the diseases of the circulatory system is nearly the double of the average and that due to neoplasms exceeds the average by 43%. According to the total mortality per hundred thousand inhabitants, and within this, according to the number of deaths due to the diseases of the circulatory system, we belong to the one-fourth of EU countries where most people die. The proportion of cancer-related deaths is the highest in Hungary all over Europe. The subjective self-assessment of health shows a similarly unfavourable picture: the proportion of people thinking their health is bad or very bad is the double of the EU average (9%).

According to the latest available data (2010), the workload of general practitioners and physicians in outpatient services was stagnant, while the number of discharges from hospitals decreased by 3%.

Hospital day-cases spread

In 2011, the tasks of the **inpatient service** were still performed basically by hospitals maintained by local governments. In 2010, three-fourths of the nearly 2.5 million discharged patients left one of the 113 hospitals of the local governments. Out of the 175 hospitals of the country, 12 are private ones, 20 are maintained by a foundation and 8 by a church. Compared to the number of beds, the patient turnover was the highest in private hospitals, which is shown by their high bed occupancy rate as well.

Table 2.10

Operation of hospitals, 2010

Denomination	Number of hospital beds in operation	Average length of nursing, days	Number of hospital day-cases
Maintained by local governments	55,146	8	95,619
Clinics	7,331	5	18,953
Maintained by the state	4,221	11	26
Maintained by a church	1,491	15	76
Maintained by a foundation	571	38	1,020
Private	181	4	12,011
Hospitals, total	**71,183**	**8**	**130,070**

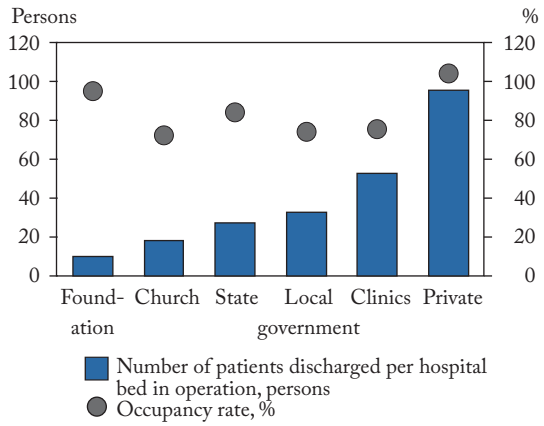
The most spectacular change of the past few years was the rapid growth in the number of **hospital day-cases**: in 2006, 58 thousand, while in 2010 already 130 thousand active cases demanding much professional

and technical input were treated successfully with a shorter than 24-hour stay in hospital, which was unimaginable some years ago.

In the past twenty years, the disparities concerning the quality of services in the different regions of the country decreased slightly, however, inequalities persist. In many hospitals, the infrastructure has been developed, mainly from EU sources, new wings have been built and others renewed.

Figure 2.18

Utilization of hospitals, 2010



According to the data of the European Health Interview Survey of 2009, less than the half of the population deems hospital services good, and one-fifth is more or less unsatisfied. People living in Budapest and in Pest county are the least satisfied, although the availability and the options for choice are the most favourable there.

In Europe, most patients with lung cancer are in Hungary

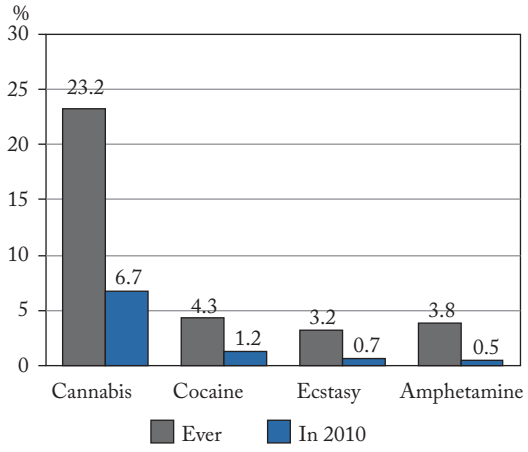
In the 1970s, stable and mobile pulmonary screening stations screened practically the total adult population in order to detect pulmonary diseases, first of all tuberculosis. Nowadays, the National Public Health and Medical Officer Service orders compulsory screening in a certain area if, during a given period, new tuberculosis infections exceed 25 per mille. (This occurred several times in the past few years.) At present, tuberculosis patients account for only 2% of the one and a half million annual turnover of **pulmonary dispensaries**. In 2010, the number of new pulmonary tuberculosis patients, after a continuous fall, reached again the level 4 years before. The significance of pulmonary screenings – debated among experts as well –, in addition to screening for tuberculosis, having regained strength due to the spread of deep poverty (homelessness), is detecting malignant neoplasms of the bronchus and other serious pulmonary diseases, accounting for 3% of patient turnover. In Hungary, where the death rate due to lung and bronchus cancer is the highest in Europe (178% of the EU average), the number of registered patients with these diseases quadrupled over the past three decades.

Young people are more and more endangered by drugs

In respect of drug infection, Hungary is among the EU countries in the most favourable situation. The number of adult deaths per one million inhabitants caused by **drugs** is less than one-fourth of the EU average (about 20 persons). However, public opinion and parents probably underestimate the danger of drugs to younger age groups.

Figure 2.19

Proportion of drug users in Europe



Source: EMCDDA (European Monitoring Centre for Drugs and Drug Addiction).

The report of the Hungarian National Drug Focal Point in 2011 publishes the results of the national survey of the research entitled *Health Behaviour of School-aged Children*. According to this, the drug use of stu-

dents in the 9th–11th classes is one and a half times as much as in 2006: the 21% proportion of students having tried some kind of illegal drugs during their lives increased to 31% over five years. The proportion of marijuana consumers grew from 17% to 24%, while that of students having tried amphetamines increased 1.5-fold. Based on the phenomena experienced among problematic users, the report calls attention to the wide spread of mephedrone, which was declared an illicit drug meanwhile, and, connected with mephedrone, to the harmful consequences evolving rapidly after consumption, the intensive drug use (several times a day) and the young age of drug users.

Physician shortage has not increased yet, but the number of emigrants is growing

The **supply of physicians** in Hungary – 34 active physicians per ten thousand inhabitants – is in the middle rank in EU comparison. In 2010, nearly 34 thousand physicians worked, 4% more than 5 years earlier. Over the same period, the number of health professional jobs filled decreased by 5% to 96 thousand. In 2010, 4% of physician jobs and 3% of health professional jobs were vacant. Physician shortage is the highest in the fields of rescue (26%) and blood supply (20%), but it exceeds the national average in inpatient services (7%) as well. The supply of physicians is only two-thirds of the national average in Central Transdanubia and Northern Hungary (21–22 per ten thousand inhabitants), and the proportion of physician job vacancies is also the highest in these regions (5%).

No decrease is expected in the shortage, since the number of graduates at medical universities has been fewer than that of physicians leaving for abroad since 2009. Most physicians and health professionals find a job in the United Kingdom (31%), Germany (30%) and Austria (8%). Nearly three-fourths of those taking a job abroad are younger than 40, and more than the half of them (56%) are between 25 and 35 years old. The reason for migration is first of all the salaries in Hungary, lower by orders of magnitude than in Europe, but the worse working conditions (terms of work contracts, overtime, time-consuming administration etc.) and the general social uncertainty play a significant role in this process as well.

Figure 2.20

Proportion of physician job vacancies

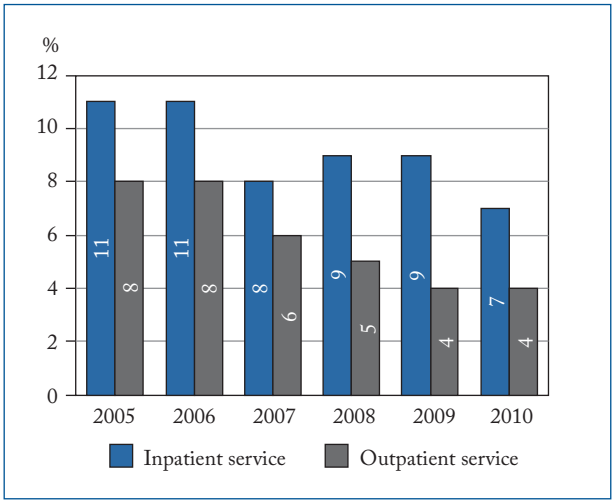
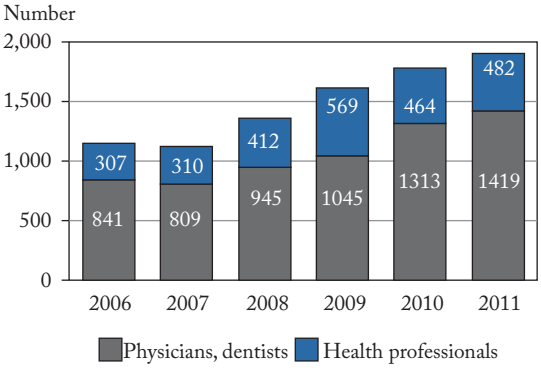


Figure 2.21

Certificates issued to healthcare workers leaving for abroad



Source: Office of Health Authorisation and Administrative Procedures.

Social care

The system of the so-called **social protection expenditure**[13] is a statistical tool allowing international comparisons, which, in addition to social benefits, comprises social insurance benefits as well. Social protection expenditure in Hungary accounted for 23.4% of the GDP in 2009; this is a much lower

[13] European system of integrated social protection statistics (ESSPROS).

proportion than the EU average (29.5%), but among the new member states, it is the highest after Slovenia. Expenditure on the aged (mainly pensions) represents the largest item of the expenditure. Within social protection expenditure, the proportion of benefits in cash has been increasing in Hungary since 2005, while in the EU it has decreased in the last decade. Consequently, the proportion in Hungary has exceeded the EU average since 2007.

There are not many provisions depending on social need

In 2009, the proportion of provisions depending on social need within social protection allowances in Hungary was less than the half of the EU average (it was 5.1% in Hungary and the EU-27 average was 11.2%). In the European Union, the proportion of means-tested benefits was the highest in Ireland (25.5%), the Netherlands (15.2%) and the United Kingdom (15.0%), while it was the lowest in the Baltic States, the Czech Republic and Sweden (each below 3%).

Social assistance and services are definitely transfer-type provisions, i.e. they are not financed on the basis of insurance. When making use of assistance, social need means income poverty, while in case of social and child protection services this is not true by all means, since people may face mental or lifestyle-related problems, which do not depend on the financial background or just do not arise from poverty.

Maintenance difficulties parallel to incomplete coverage

In the middle of the last decade, the financing of **social services** was transformed, and, instead of the earlier institution financing, social services were financed on the basis of the number of people cared. While formerly the problem was that institutions were not interested in capacity development, after this change, the number of people cared grew considerably, especially in case of newly introduced services supported by normative grants of higher amounts. This perilled the sustainability of the provision system, making the government reduce the amount of normative grants

Figure 2.22

Homes for the aged per ten thousand inhabitants, 2010

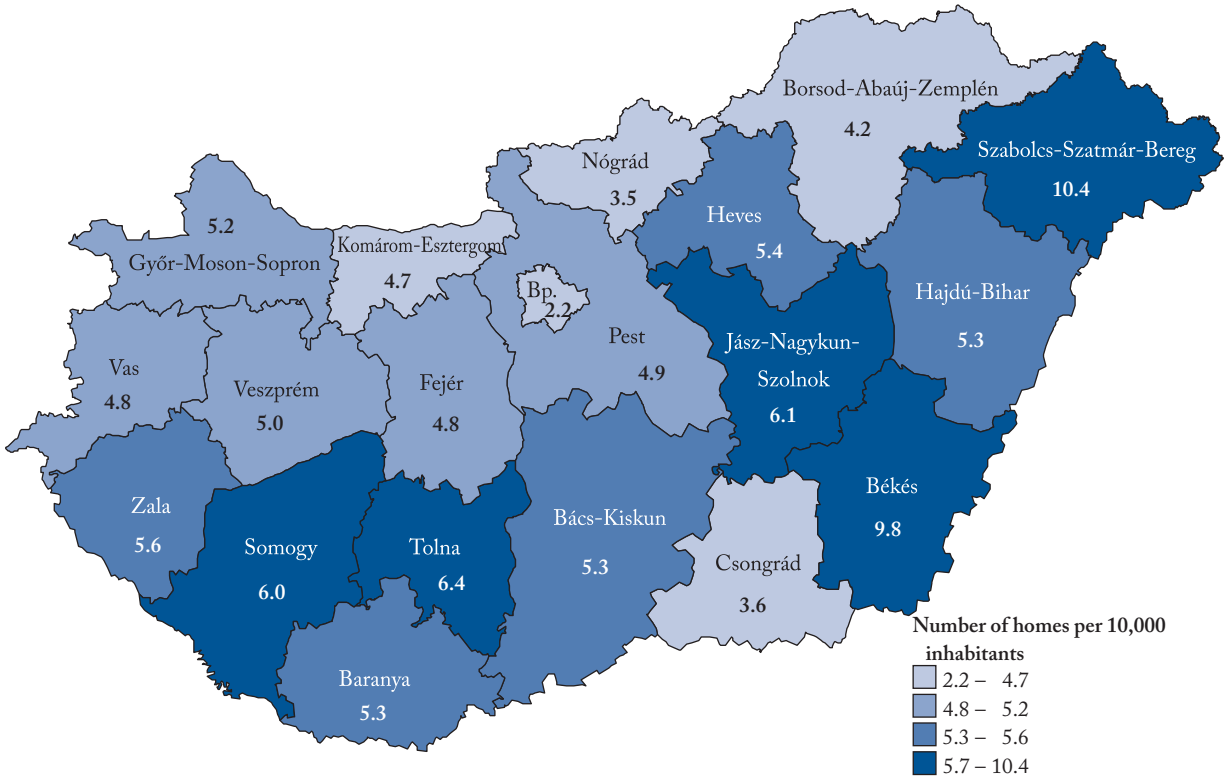


Table 2.11

Amounts spent on home maintenance support and their distribution by types
(only amounts paid as support in cash)

Denomination	2005	2006	2007	2008	2009	2010
Total, million HUF	8,379.4	12,350.8	13,168.6	12,050.5	13,038.4	13,718.7
Of which, %						
Provided on normative basis	81.8	87.1	88.1	88.7	89.0	89.9
Provided as debt management service	1.1	0.7	0.2	0.3	0.4	0.6
Provided on the basis of equity	17.1	12.1	11.7	11.0	10.5	9.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

and introduce differentiated normative financing, as well as reduce the obligation of settlements to provide care. Despite the developments in former years and the modification of obligations to provide care in 2008, the national coverage and availability of certain services do not reach the level stipulated by regulations in force. Among social services, the availability of family assistance was the best: in 2010, it was 92% at national level and 95% in settlements where this service is compulsory. (It is another question that in small settlements this service is provided in the form of associations, i.e. it is ensured by larger settlements; therefore, the quality of the service is probably not the same.) Access to domestic care (85%) and social catering (81%) is nearly at the same level as family assistance. According to law, these two services are to be provided compulsorily in each settlement. The number of residents in residential social institutions was 88 thousand in 2011, 55% of them lived in homes for the aged. The number of residents has been continuously increasing since the beginning of the 1990s, apart from the temporary fall in 2008. In respect of regional distribution, there are considerable dispari-

Figure 2.23

Minimum old-age pension as a percentage of average net earnings

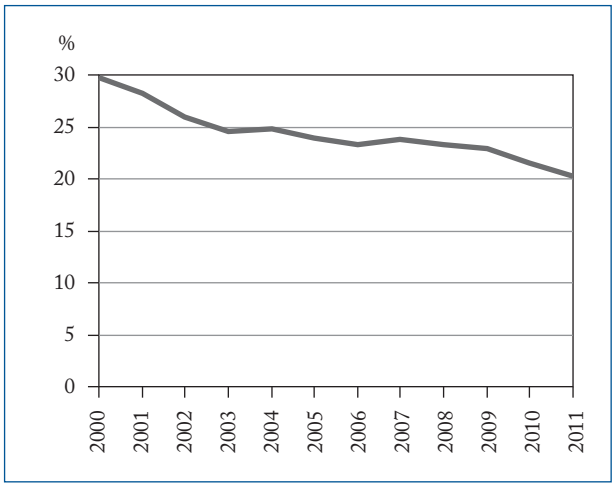


Table 2.12

Main social supports per thousand inhabitants by regions, 2010

Region	Regular social assistance	Availability support	Regular child protection allowance	Nursing allowance on a universal basis	Home maintenance support
Central Hungary	2.0	4.6	27.0	2.7	12.8
Of which: Budapest	2.1	4.5	18.6	2.3	13.3
Pest county	1.8	4.6	38.9	3.4	12.1
Central Transdanubia	2.6	10.3	42.2	2.8	16.1
Western Transdanubia	2.0	8.4	32.5	3.1	14.6
Southern Transdanubia	4.6	25.2	74.8	4.1	35.3
Northern Hungary	6.7	36.8	100.5	4.7	47.6
Northern Great Plain	5.1	33.3	108.4	7.0	57.7
Southern Great Plain	4.0	18.1	66.3	5.3	39.3

ties. The number of residential social institutions is especially high in Northern Great Plain and Southern Great Plain, within this, Szabolcs-Szatmár-Bereg county is in the first place in respect of long-term residential social institutions for the aged, where the number of homes per ten thousand inhabitants is the highest in the country.

Among provisions which are subject to the child protection act, infant nursery care is one of the most important ones. The provision of this care is compulsory only in settlements with more than 10 thousand inhabitants.[14] In 2010, the coverage was almost full, 92% in these settlements, while only a fraction (18%) of all settlements provides this service, which is therefore, in line with the law, concentrated to the larger settlements. Both the number of institutions and the number of children enrolled grew between 2005 and 2011; in 2010, nearly 36 thousand children attended 668 infant nurseries. The availability of child welfare services (these are of the highest level among child protection services) was better than that of infant nurseries; they were available in 97% of all settlements.

Based on the social and child protection act, **benefits in cash** can be provided for those in social need. The eligibility and the amounts of the provision are determined on the basis of the minimum old-age pension. The value loss of the income threshold, which is the basis of the eligibility for the benefit, has been continuous since the beginning of the 1990s. The amount of the minimum old-age pension did not follow the rise of earnings and the changes in subsistence level, and it has been HUF 28,500 since 2008. The value loss was partly compensated by the fact that, when modifying the regulation for this benefit, the quota linked to the old-age pension was raised in many cases.

It has been true since the 1990s that in the support system, the proportion of **centrally regulated** benefits is increasing, while that of locally regulated benefits or benefits based on the principle of equity is decreasing. This process observed mainly in supports of dual (or multiple) structure leads basically towards sustainability. In 2010, HUF 13.7 billion was paid on home maintenance support to those in need. 90% of payments were made on normative basis, 9.4% on the basis of the principle of equity, and the rest was debt management services. The amount of benefits has been increasing with small fluctuations since 2006.

The number of support recipients shows significant regional differences. In the poorer parts of the country, the number of support recipients per thousand inhabitants may be several times as many as that in the capital city. The disparities are the largest in case of **availability supports** and **regular child protection allowances** within **provisions for people in 'active age'**. The amounts of social benefits provided by local governments, although there was a considerable shift towards the dominance of centrally regulated and financed benefits in the past two decades, depend not only on the living conditions and labour market situation in the area, but they are also influenced by the different financial opportunities of local governments.

Crime – public security*

'In modern societies the notion of safety leads to the categories of risk, threat and trust, indicating some kind of human need' says Hans-Jörg Albrecht.[15] Analyzing the issue of public security from the side of crimes, the number of **registered crimes**[16], after a fall between 1998 and 2009, increased. Authorities and law enforcement institutions registered 451 thousand crimes, a 0.9% rise year on year. Around one-quarter of crimes were committed in the capital, a 2.9% drop over the year. Within infringements, the rise in the number of offences was below average, while that of crimes above average.

Crimes against property continue to be the most frequent

Crimes are similar in volume and structure to those of the Western European countries. The number of reg-

* *Source*: Ministry of Interior, crime and law enforcement data of Hungary, as well as the Prosecution Service of the Republic of Hungary.

[14] Smaller settlements can choose from other services such as out-of-school care institutions, childminding at home or with families. Out-of-school care institutions are the most widespread, however, the coverage does not reach 8% of settlements with fewer than 10 thousand inhabitants.

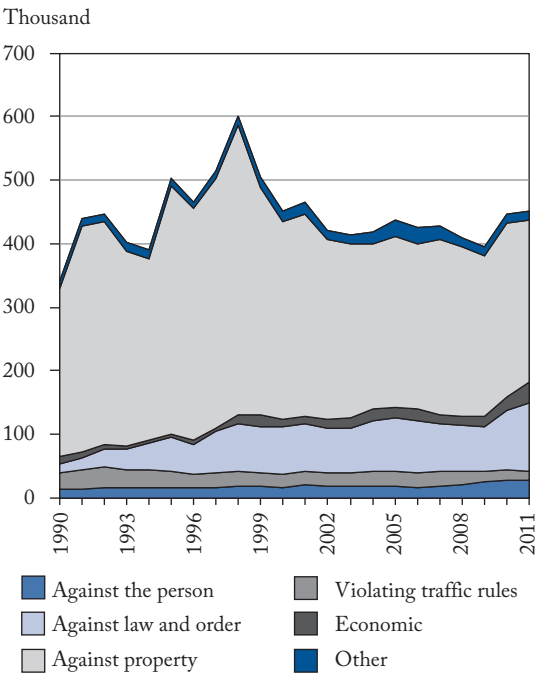
[15] *Source:* Hans-Jörg Albrecht: Biztonság és bűnmegelőzés, Objektív biztonság–szubjektív biztonság (Safety and crime prevention, Objective safety–subjective safety), In: Kriminológiai Tanulmányok Vol. 47, OKRI, Budapest, 2010.

[16] Until 31 December 2008 data of known crimes; the indicator excludes unreported cases, i.e. latency, which are estimated to be manifold higher in number.

istered crimes is not enough to draw far-reaching conclusions on the moral state of the society or on actual public security, but state measures on the control of and coping with crime are to react to registered crimes only.

Figure 2.24

Number of registered crimes



The steep rise in crimes against the person, characteristic of the previous years, stopped in 2011, their figure of slightly over 27 thousand dropped somewhat compared with 2010. Petty assaults and serious assaults accounted for the major part of crimes against the person. Of crimes against life the most serious are **homicides**; their figure stood at 250-300 per year in the first decade after the change of regime, at 200-250 in the post-millennium years, it decreased from 2005 and in 2011 it went up from 131 a year earlier to 142.

Traditionally, crimes **against property** account for the highest proportion of crimes, showing a decline in the last twenty years. This indicator stood at around 80% at the beginning of the 1990s and at 57% in 2011; changes in the value threshold played a role in this process. Larcenies, within these domestic burglaries and car thefts, had the highest shares of crimes against property. Domestic burglaries and car thefts increased in number during last year. The number of domestic burglaries oscillated after the turn of the millennium, then – from the mid-decade – it increased, and in line with that security devices in homes and other premises became more widespread. At the same time the number of frauds and copyright infringements (e.g. sales of counterfeit CDs) fell.

Traffic crimes are a major component of crimes in public areas, within which public road crimes play a main role. The number of **traffic crimes** continued to diminish in 2011. Traffic discipline strengthened, a fact reflected by the decline in drunken driving. The fight against drunken driving, the introduction of objective liability, a more severe track record point system, more severe punishments, and the higher intensity of inspection facilitated to reverse the previously stagnating, then deteriorating trend of public road traffic crimes.

Crime statistics recorded 10–18 thousand **economic crimes** per year in the last decade. A notable rise has been seen in the number of this type of crimes since 2008, with an outstandingly sharp rise to the range of 21-32 thousand over the last two years. Of economic crimes, the significant increase in the number of misuses of cash substitutes resulted from the deepening penetration of these instruments, indicating the need to create more efficient defence systems. Though no real snapshot can be provided on the real volume of criminal corruption, concerning this type of crimes, a remarkable rise was seen in the number of abuses of authority and that of misuse of confidential business information, both belonging to this group of crimes. Regarding the latter group, in 2011 ten thousand cases were recorded compared with a figure of 10–20 cases in the previous years.

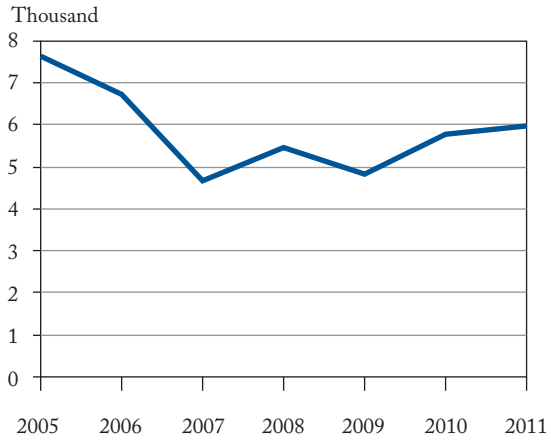
Crimes against law and order contain vigilantism, ruffianism, drug crimes, crimes causing public danger, forgery of public instruments and misuses of firearms or ammunition. After a fall in the previous years, crimes against law and order increased in number by 36% in 2010 and by another 15% in 2011. A rise in the number of forgeries and drug abuses was a backdrop to this growth. A further growth was seen in the number of drug users with nearly 6 thousand abuses in 2011, a 3.5% increase on 2010 and a 24% hike on two years earlier.

Drugs on the market

The number of drug crimes was the highest in 2005 (7,600), which was followed by a significant fall and, from 2008, a fluctuation. In 2011, 6 thousand drug abuses were recorded.

Figure 2.25

Number of drug abuses



In 2011, drug user crimes accounted for 87% of recorded drug crimes, the rest were dealer crimes. Petty drug crimes accounted for the overwhelming majority of cases. Most crimes – as in the previous years – were recorded in Budapest and Pest county. Drug criminals are 18–31 years old on the average. Within this, the age group of 18–24 years is the most affected. It is an alarming development that the number of juveniles – aged 14–18 years –, after the sharp rise in 2010, continued to increase in 2011.

The number of perpetrators under the influence of drugs was 3,636, 3.1% higher than in 2010. A significant proportion of crimes committed by them was against law and order.

In 2010, 17 illicit drug-related death cases were recorded; a considerable fall compared with a year earlier (31) as well as two years earlier (27). The average age of those deceased directly of overdose was 36 years. In Hungary, among those aged 15–64, the number of drug-related deaths per million inhabitants is 3.9, which is very low in international comparison. The EU average is more than five times higher than the Hungarian indicator (20.7 deaths)[17]. During the last decade Hungary became a destination country from a transit country, all types of drugs are available. According to surveys, 20–30% of the Hungarian young people try illicit drugs before coming of age; less optimistic surveys put this figure at 50–70%[18].

The number of discovered perpetrators continued to lessen in 2011

Last year, the number of **discovered perpetrators** was 113 thousand, a 7.9% fall on 2010. This was one of the lowest figures of the last two decades. The number of adult perpetrators – aged 18 or over – played a role in this decrease. In the capital, the number of recorded perpetrators fell at an above average rate of over 15%. The number of juvenile and foreign perpetrators changed in opposite directions: year on year, the number of juveniles sank by 1.8%, while that of foreign perpetrators increased by nearly 17%. The number of unpunishable child perpetrators (2,714 children) was practically the same as in 2010.

Seven-tenths of perpetrators had a clear record, their number – similarly to those with a criminal re-

[17] *Source*: Annual Report on the state of drug problems in Hungary in 2011, made for EMCDDA, Hungarian National Focal Point on the Hungarian drug situation, 2012. Press release: Az elmúlt évtizedben nem nőtt a kábítószer-fogyasztással összefüggő közvetlen halálesetek száma hazánkban (No growth in the number of drug-related deaths in our country during the past decade)

[18] *Source*: Sulinet website, Drogfogyasztás Magyarországon (Drug consumption in Hungary), 7th May 2012

cord – diminished compared to the previous year. An overwhelming majority of perpetrators, namely 83%, was men; no significant change has been seen in their proportion recently. Less than one-fifth of perpetrators were under the influence of alcohol or drugs. The number of perpetrators under the influence of alcohol has been constantly decreasing since 2007, while a slight rise can be observed in the number of those under the influence of drugs. The number of perpetrators involved in organized crimes was 153, a three and a half-fold increase compared with two years earlier and a decrease of 34 on 2010.

The **number of offended persons** was over 261 thousand, a 5.3% rise year on year. Within this, the number of child victims went up by 35% and reached nearly 9 thousand. The number of crimes against foreigners also increased compared to the previous year.

The number of **persons with definitive sentence** stood at approximately 100 thousand after the turn of the millennium and at below 90 thousand in the last years. The number of persons with definitive sentence was slightly over 85 thousand in 2011, a 4.7% fall year on year. More than one-third of them were sentenced to imprisonment, 14% to work for public interest, one-quarter to financial penalty or to some supplementary punishments and measures. A slight modification was seen in the practice of judging during the last years, the number of those sentenced to work for public interest continued to rise, while the number of those sentenced to pay a penalty decreased. Two-thirds of those sentenced to imprisonment had a suspended sentence; 10 thousand people were sentenced to actual imprisonment, nearly 12% of all convicts. One in 14 convicts with definitive sentence was still a juvenile.

The number of imprisoned people has continued to increase for years, there are more and more convicts

The year-end number of **imprisoned** people in law enforcement institutions has continued to increase in the last years with a one-fifth rise between 2007 and 2011 and within this with a 5.4% rise last year. The number of prison population was 17,200 people, the same as 10 years earlier. The growth mainly resulted from a rise in the number of convicts. Seven-tenths of law enforcement inmates are convicts, 28% of them are in pre-trial detention. The others are sentenced to forced therapy or assigned to custody.

In 2011, Southern Transdanubia and Southern Great Plain saw a sharper and Northern Hungary a lower rise in the number of registered crimes. Western and Central Transdanubia were characterized by a tangible rise, in addition to this, this indicator increased in Central Hungary and stagnated in Northern Great Plain. One-third of crimes were committed in Central Hungary, with the highest ratio of crimes to population. The number of registered perpetrators decreased significantly in Central Hungary and Southern Transdanubia, but dropped in the other areas as well. Nearly one-fourth of perpetrators were discovered in Central Hungary, and slightly lower than one-fifth of them in Northern Great Plain, the other regions had stakes of between 9% and 16%. The number of discovered juvenile perpetrators was the highest in Northern Great Plain and the lowest in Western Transdanubia.

3. Domestic and international macro-economic trends

International economy

• The growth having started in 2010, after the recession, slowed down in 2011: according to the forecast of the International Monetary Fund the expansion of the **global economy** was 3.9%, lower than in 2010. Major contributors to the global increase were developing countries, while fiscal disequilibria, the shrinking of the credit market, inflationary pressure and the debt crisis in Southern Europe lowered growth.

• The economic performance of the **United States**, one of the national economies considered as good indicators of the development of global economic trends, expanded by 1.7%, while the GDP grew by 9.2% in **China** – although the growth rate of its economic expansion lost impetus. The economy of **Japan** was severely hit by the earthquake and tsunami in March – which, through external trade, also had their impact on the global economy –, so its performance decreased by 0.7% in 2011. The growth of the performance of the **European Union** also decelerated: the GDP was 1.5% higher than in the previous year. The economic growth in the EU remained driven by Germany, while the member states facing budget problems lowered the expansion.

Domestic macroeconomic trends

• Although the recovery in Hungary also lost momentum during 2011 in line with global economic trends, the gross domestic product rose by 1.7%. Similarly to the rest of the Visegrád countries the economic growth in Hungary was influenced, too, by the strengthening of the German economy. The **economic growth in Hungary**, surpassing the past few years, was – on the expenditure side – primarily due to external trade, as well as – on the production side – to industry producing for exports and to agriculture. Hungary – according to the latest global competitiveness report of the World Economic Forum – was the 48th most competitive country in the world in 2011 after moving up by four positions, within which it reached the most favourable position (34th) in the area of innovation.

External trade

• One of the most important driving forces of the Hungarian economy is **external trade**, though lower growths were recorded both in exports and imports in 2011 than in the previous year. Three-quarters of the exports and seven-tenths of the imports of Hungary were concentrated in the EU, within which the share of the German economy remained especially high: one-quarter of Hungary's exports were to and the same proportion of imports from Germany. The engines of Hungary's external trade in 2011 were first of all the manufacture of transport equipment as well as basic pharmaceutical products and pharmaceutical preparations, but a steady increase was recorded in the case of services as well.

Balance of payments, external debt stock

• The balance of the **current account** improved further in 2011, it was in surplus by EUR 1.4 billion at the end of 2011, which corresponds to 1.4% of GDP. The increasing surplus – similarly to 2010 – was due to the positive balance of trade in goods and services, while the balance of

General government and its sub-systems

income and current transfers deteriorated in 2011, too. The net **external debt stock** of Hungary – which meant 44.3% of GDP in 2011 – was down by 12% compared to the previous year.

• In 2011 the consolidated deficit of the **general government** on cash basis (not including local governments) nearly doubled compared to the previous year, and exceeded HUF 1.7 trillion. In the meanwhile the gross debt of the central government also increased further: it was 5% higher at the end of 2011 than in the previous year. According to data reported in the frame of the excessive deficit procedure (**EDP**) and as an impact of the transfer of wealth from private pension funds the general government had a surplus of 4.3% of GDP at the end of the year, thus meeting the relevant Maastricht criterion. (Leaving out of consideration the transfer the general government had a deficit of 5.4% of GDP.) However, the **government debt** as a proportion of GDP continued to exceed 80%, which was considerably higher than the threshold of 60%.

Summary data

Denomination	2009	2010	2011
Volume index of gross domestic product (GDP), previous year=100.0	93.2	101.3	101.7
GDP per capita, thousand HUF	2,556.5	2,674.8[+]	2,822.7
GDP per capita, EUR	9,112	9,712[+]	10,110
Volume index of investment, previous year=100.0[a)]	91.4	94.9	95.5
Balance of external trade in goods, billion HUF	1,056.4	1,515.7	1,929.5
Volume index of imports, previous year=100.0	82.9	115.1	106.9
Volume index of exports, previous year=100.0	87.3	116.9	110.2
Current account balance, million EUR	–139.2	1,186.9	1,431.4
Gross foreign debt as a percentage of GDP	114.0	110.4	101.7

[a)] Based on quarterly data.

International economy

Declining impetus in global economic performance

The **global economy** reached an average annual growth of about 4% from the turn of the millennium to the start of the financial crisis in 2008, while it fell into recession in 2009 (–0.6%), even though the emerging countries in the Asian region (mainly India and China) lost of their economic momentum to a small extent only.

In 2010 a recovery from the recession was registered, with a dynamic growth of around 5% compared to the low base, while the deceleration of the increase followed in 2011. According to the forecast of the International Monetary Fund the expansion of the global economy was 3.9% in 2011, lower than in 2010. Developing countries contributed significantly to the global increase.[1)] The gross domestic product of the OECD – dominantly comprising developed countries – as a whole rose by only 1.8% compared to the previous year.[2)] (In 2010 the economic expansion in the OECD as a whole was 3.2%.)

Several factors restricted the world economy from growing. The problems of major countries stemming from fiscal disequilibrium, the significant shrinking of credit markets, the inflationary pressure driven by the increase of food and raw material prices, and the government debt problems in the Southern European area were especially important among these in 2011. The debt crisis proved to be a very important factor in the trends on global financial markets, which had its impact on the performance of the real economy, too, through the prices of financial assets. The application of Greece and Portugal for a loan as well as the downgrading of these countries in April were considered as a turning point in global trends, which was followed by the credit rating downgrading of further countries, including Hungary.

In 2011 – based on IMF calculations, in purchasing power parity – the largest economy in the world was that of the United States, the share of which was 19% of the gross domestic product of the world. This share decreased continuously in the last few years, mainly as a consequence of the dynamic growth of the newly industrialised Asian region. China is second, and India is third in the ranking, with economic performances increasing at rates exceeding the global average: China and India reached volume rises of 9.2% and 7.3%, respectively, of GDP in 2011, with which the latter overtook Japan in the ranking. There are four EU Member States (Germany, the United Kingdom, France and Italy) in the top ten. The share of the EU is 20%, with which the European integration is considered as a leading economic power. Hungary is 55th in the ranking.

Table 3.1

Change of volume of global GDP
(compared to the previous year)

(%)

Denomination	2010	2011[a)]	2012[b)]	2013[b)]
IMF	5.3	3.9	3.5	4.1
World Bank	5.0	3.7	3.4	4.0
OECD	5.0	3.8	3.4	4.3

[a)] Estimation.
[b)] Forecast.

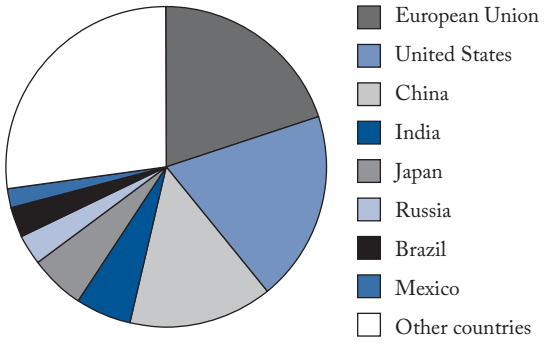
On the basis of GDP per capita Qatar was first in the world in 2011, similarly to the previous two years. The Arabian state is followed by Luxembourg, also regarded as a financial centre of Europe. At the top of the ranking there are developed European states as well as mainly oil-producing countries or those with a role of a financial centre. The top ten includes only one country – the United States – of the 20 largest economies in the world. Hungary is 47th in the ranking.

The economic performance of the **United States,** considered as a good indicator of the development of global economic trends, grew by 1.7%[3)] in 2011 compared to the previous year. The deceleration of the growth rate stopped by the end of the year. The volume of personal consumption expenditures, representing more than seven-tenths of GDP, was

[1)] *Source:* Növekvő kockázatok a külső környezetben, bizonytalan kilátások Magyarországon. Makrogazdasági elemzés 2011 (Growing risks in external environment, uncertain outlooks in Hungary. Macroeconomic analysis, 2011). MFB Zrt.
[2)] *Source:* OECD.
[3)] *Source:* U.S. Department of Commerce, Bureau of Economic Analysis.

Figure 3.1

Distribution of global GDP, 2011
(based on purchasing power parity, %)



Source: International Monetary Fund, World Economic Outlook database.

up by 2.2% compared to 2010, while the increase of personal incomes was only 1.3%. The 8.2% expansion in the consumption of consumer durables contributed substantially to the economic growth. The volume of gross domestic private investments rose at a lower rate (4.8%) than one year earlier, though the high base also had a role in this. The balance of net exports deteriorated further in 2011 despite the volume of exports increasing to a higher extent (6.7%) than that of imports (4.9%). The volume of government's consumption expenditures and gross investments – along with a decrease all over the year – was cut by 2.1%, which on the one hand lowered economic growth, but was in line with government measures aimed at balancing the federal budget, strongly in deficit. (Based on the Budget Control Act adopted in 2011 government expenditures must be reduced by USD 2,100 billion over 10 years.) Because of uncertainties about the sustainability of the government debt of the United States, Standard & Poor's, one of the most influential credit rating agencies, downgraded the long-term government debt of the US from category AAA into AA+.[4] In spite of the downgrading no change was registered in the yield on government securities: the yield on the ten-year Treasury bond (one of the main buyers of which is China) – following a significant fall at the end of July – was around 2% in the rest of the year.[5]

The inflation in the United States doubled during 2011: it was 3.2% (compared with 1.6% in 2010). In parallel, the rise of producer prices calculated for manufacturing also jumped to 7.8%. Despite slackening economic growth positive changes were observed on the labour market – mainly in the last few months of the year, the unemployment rate decreasing from 9.6% in 2010 to 9.0%.

The economic performance of **Japan** was down by 0.7% in 2011.[6] The earthquake and tsunami of 11 March 2011 had a negative impact on economic trends. The natural disaster with nearly 16 thousand victims also had its effect temporarily on the world economy through external trade. In the months after the disaster external trade had a significantly downward effect on the performance of the Japanese economy: imports went up considerably, while the increase of exports was delayed by bottlenecks in industrial production. Provisional disturbances occurred in global production chains, which was the consequence of a temporary shortage of the stock of special electronic products.

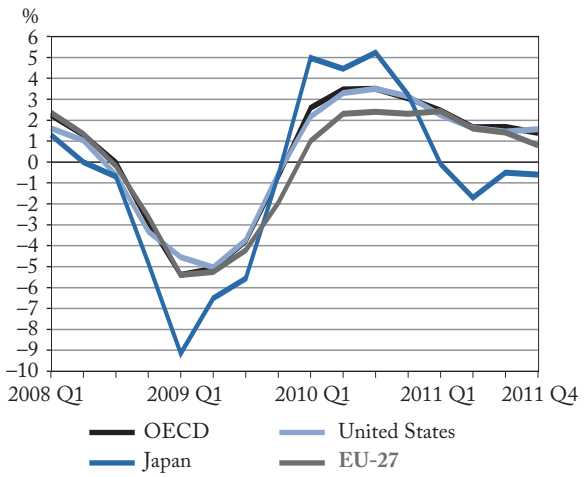
Industrial production in March, the month of the disaster, decreased – after seasonal adjustment – considerably, by 13% compared to the same month one year earlier. Thus the output of industry fell to a one-and-a-half year low.[7] The volume of industrial production did not reach the level observed in February, before the natural disaster, even until the end of the year, as a result of which the output was down by 3.6% in 2011. The decline of consumer prices (0.3%) continued in 2011, the rise of energy prices (5.9%) could only moderate the deflation rate. An additional unfavourable impact on economic trends was represented by the lasting appreciation of the yen against the dollar, which the bank of issue of Japan failed to answer. The basic rate did not change over the year: it continued to remain at a record low level (0.00–0.10%).[8]

[4] *Source:* Website of Standard and Poor's.
[5] *Source:* U.S. Department of Treasury
[6] *Source:* Cabinet Office, Government of Japan.
[7] *Source:* OECD.
[8] *Source:* Bank of Japan.

Figure 3.2

GDP volume change in global economy*

(compared to the same quarter of the previous year)



* According to seasonally adjusted data.
Source: OECD.

In China the dynamism of economic growth lost impetus gradually in 2011, but even so the gross domestic product grew by 9.2% during the year as a whole.[9] Key roles were played in the slowdown by the lower external demand due to the economic deceleration of developed countries (more than a third of exports were to the United States and the European Union in 2011) as well as soaring inflation. Consumer prices were 5.4% higher in 2011 than in the previous year. As a consequence of the accelerating rise of consumer prices and of credit and real estate market trends, the monetary policy was restrictive in the larger part of the year: the bank of issue loosened the regulation of the financial system only in the last few months of the year, in order to boost decelerating economic development.[10]

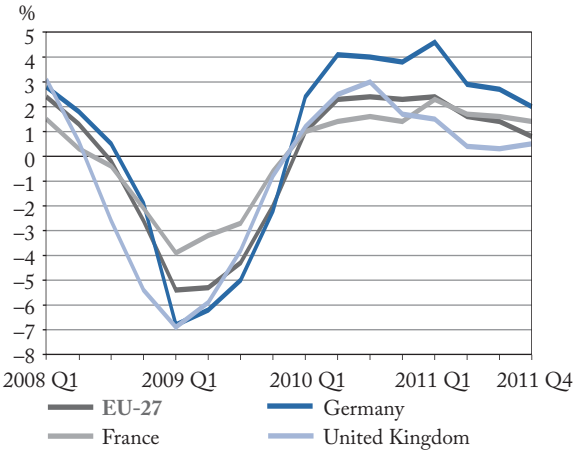
The economy of the European Union grew in unfavourable fiscal situation

The increase of performance of the European Union (EU-27) slowed down, too, in 2011: the GDP was 1.5% higher than one year before. Germany remained the engine of growth (3.0%), though its rate of increase dropped significantly in the course of 2011. In the German economy consumption as well as the recovery of investment activity were positive contributors to the growth. In addition to Germany, out of the national economies representing larger weight in the economic performance, the gross domestic product of France also expanded at a higher rate (1.7%) than the EU average while the economic growth did not reach even 1% in Spain and the United Kingdom. The volume increase of GDP was especially high, above 5% in the states of the Baltic region, and the economic performance went down in three countries – Greece, Portugal and Slovenia – only. Growth in the Visegrád countries continued to be determined by trends of recovery in Germany (their share of Germany's imports exceeds 10%)[11]. The economies of Slovakia and Poland grew at higher rates (by 3.3% and 4.3% respectively) than Hungary's, while the Czech economy at a similar rate (1.7%) to it. (In addition to external demand, internal macroeconomic trends also had a very favourable effect on growth in Poland.)

Figure 3.3

GDP volume change in the EU and its largest economies*

(compared to the same quarter of the previous year)



* According to seasonally and working-day adjusted data.

[9] *Source:* National Bureau of Statistics of China.
[10] *Source:* The People's Bank of China.
[11] *Source:* Destatis.

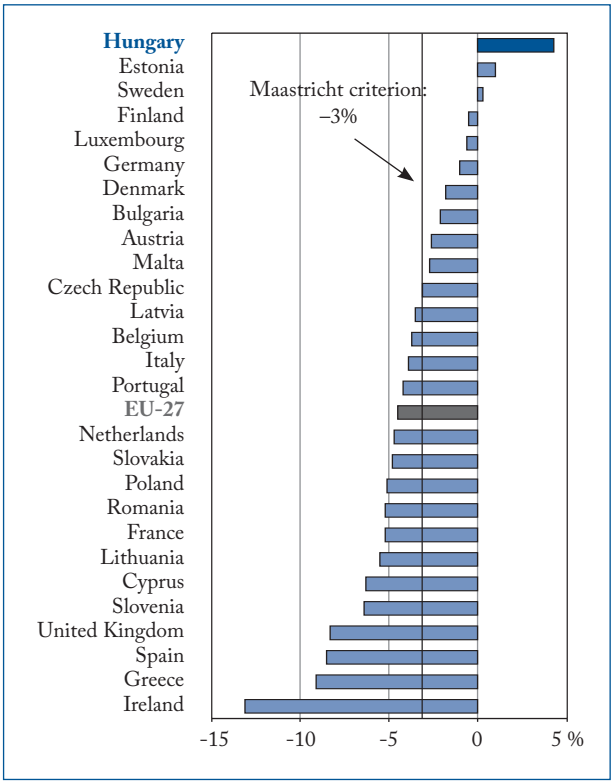
As an impact of the crisis the balance of the general government deteriorated substantially in the majority of member states in 2008 and 2009. In 2009 only five member states met the 3% Maastricht criterion in respect of the general government balance as a proportion of GDP. The majority of member states tried to moderate the losses caused by the recession and to start growth as soon as possible by applying an anti-cyclical economic policy. In 2010 and 2011 they already started a fiscal policy leading to the fall of deficit levels, which was also allowed by the start of an economic boom in Europe. In addition to Hungary, Estonia and Sweden already had a general government surplus in 2011, and the deficit declined in the vast majority of member states. In Hungary the deficit of 4.6% of GDP in 2009 and of 4.2% in 2010 was followed by a surplus of 4.3% in 2011, which stemmed from the transfer of private individuals' wealth in private pension funds to the state.

In 2011 the government debt as a proportion of GDP was higher in every member state except for Sweden compared to 2008, and, what is more, this proportion at least doubled in Ireland, Latvia, Lithuania, Romania and Slovenia. As a consequence, credit rating agencies downgraded the risk classification of several EU member states in 2011. General government balances, in deficit because of the crisis, contributed significantly to the increase of debt levels. The funding of government debt became considerably more expensive in several member states (e.g. Greece, Hungary, Italy, Portugal and Spain): yields on government securities rose substantially owing to macro-economic risks – and increasing risk avoidance by investors.

The 60% level of government debt as a proportion of GDP, considered as a Maastricht criterion, was surpassed by 9 member countries in 2008 and by 14 by the end of 2011. The value of the indicator in the case of Hungary was above the level of the criterion in both years. Hungary's debt ratio was 80.6% at the end of 2011, somewhat lower than the average of the European Union (82.5%). With this, Hungary has the ninth highest debt ratio among EU member states, and is considered as the most indebted member state out of those having joined the EU since 2004.

Figure 3.4

General government balance as a percentage of GDP, 2011



The economic growth in the EU was mostly decelerated by member states facing considerable disequilibrium of the general government, since the budget restrictions there had a downward impact on the expansion of the real economy. Signs of divergence can be observed on the economy of the euro area: since the economic crisis of 2008–2009, national economies in Southern Europe have lagged behind other member states using the euro.

The fall in the volume of investments, caused by the crisis, is indicated by the **gross fixed capital formation** as a proportion of GDP being 18.6% in the European Union in 2011, compared with 21.1% in 2008. The rate decreased in each member state compared to the level before the crisis. The decrease was not considerable in Germany, which contributed substantially to an especially high growth in the past two years. Because of the disequilibrium of the general government in Greece, the collapse of

Debt crisis in Southern Europe

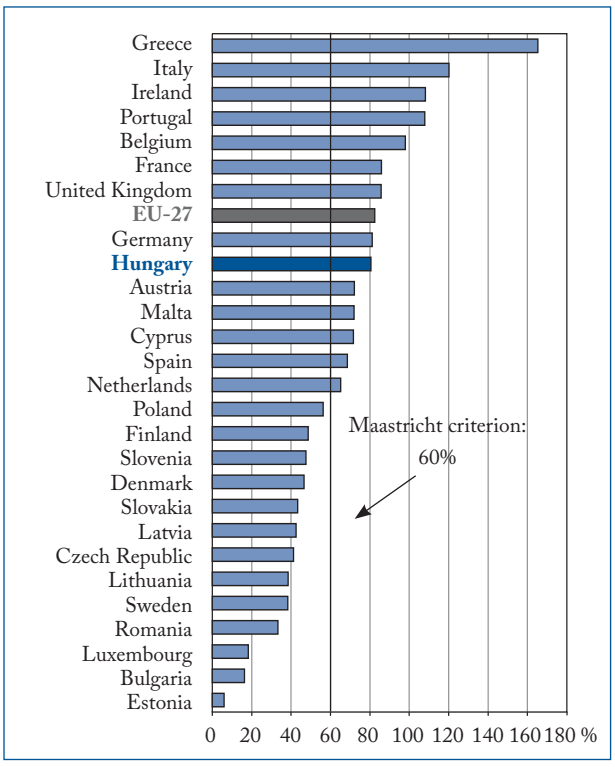
During the recovery from the crisis an expansive budgetary policy was applied in the most EU countries in order to start an economic boom. Fiscal measures to boost demand (e.g. scrap-car schemes), bank consolidations and automatic stabilisers (e.g. unemployment benefit) caused substantial general government deficits in the different member states. A budget deficit of above 3% – exceeding the relevant Maastricht criterion – was registered in the majority of member states at the end of 2009.

With recovery starting, governments focused on reducing deficit levels, steadfastly pursuing an anti-cyclical economic policy. As an effect of the restrictive economic policy, the decrease in aggregate demand moderately lowered economic growth. In some member states larger adjustments were needed in 2011. It was typically in the states of the Southern European area that the sustainability of general government trends was queried. Investors started to deem risky to finance the government debt of certain countries. By March 2011 rising financing costs put the government debt on an already unsustainable path in case of Greece. Over the course of 2010 the member states of the euro area established a relief fund (European Financial Stability Facility, EFSF) to help states facing 'financial difficulties'. In the frame of this EUR 223 billion were allocated to Greece, Ireland and Portugal, of which nearly EUR 15 billion were placed to the latter two states by the end of 2011.[12)]

Credit rating agencies downgraded the classification of several member states because of the deteriorating situation of general government or increasing general risks in the euro area (spillover effects).

Figure 3.5

General government debt as a percentage of GDP, 2011



the banking system in Ireland and the bursting of the real estate bubble in Spain the proportion of investments fell significantly in these countries. In 2011 the volume of gross fixed capital formation grew by 1.3% in the European Union after three years of decline. Although an increase was measured in the majority of EU member states, the volume of gross fixed capital formation was higher than in 2008 only in case of Poland. Investments in the infrastructure related to the organisation of the 2012 European Football Cup – the construction or reconstruction of stadiums, motorways and airports among others – largely contributed to this.

Considering the indicators of economic recovery, calculated for the European Union as a whole, the **unemployment rate** – of the 15–64 year-old population – was 9.7% in 2011, similarly to the previous year. In Germany – as a positive effect of the economic growth, significantly exceeding the EU average, on the labour market – the unemployment rate was down to 6.0%, the lowest level in the past nearly 20 years. In countries where unemployment is conventionally low (Austria, the Netherlands and Luxembourg) the rate was below 5%. In Southern European member states the general government of which is in disequilibrium – except for Italy – the unemployment surpassed 13%. The rate of jobless

[12)] *Source:* Website of European Financial Stability Facility.

people was the highest in Spain (22%), and, on the top of all that, the unemployment rate of 15–24 year-old young people was the highest here, too: almost one in two young people are unemployed. In some member states – in the Baltic States and Slovakia – the rate of jobless persons is high in spite of an economic growth exceeding the EU average. The United Kingdom was hit in 2011 by the highest rate of unemployment in the last 15 years (8.2%).

One of the main reasons for the decelerating performance of the EU's economy was the substantial slowdown in the growth of **industrial production.** In 2011 the volume increase of industrial output – after working-day adjustment – was only 3.2% (and in the 4th quarter of 2011 the branch already practically stagnated). The decline of production suffered during the crisis, equal to 1.8% in 2008 and 14% in 2009, could not be offset by the increases of 6.7% in 2010 and 3.2% in 2011. Only 8 countries – including Poland, Slovakia and Romania – managed to reach the level recorded in 2007, before the crisis. Out of the member states having a dominant role in industrial production, the growth of performance of only the German industry (7.6%) exceeded the EU average in 2011, while the output of the United Kingdom and Spain did not reach the level registered in 2010 (–1.1% and –1.4%, respectively). After an increase of about 20% at the beginning of the year the volume of new manufacturing orders already lessened by the end of 2011 compared to the same period of the previous year, making the short-term growth of industrial performance uncertain.

Raw and base material price rises caused inflationary pressure

In spring 2011 the development of **raw and base material prices** had an inflationary effect both on producer and consumer prices. Following a marked rise in spring, raw material prices on the world market decreased by September, which was influenced by the global decline in demand because of deteriorating global economic perspectives. The price index[13] containing all major base and raw materials, calculated by the International Monetary Fund, rose by 26% in 2011 compared to the previous year, as a result of which the value of the indicator reached a record level. (The price index not including energy sources was 18%, while that of energy sources 32% higher.)

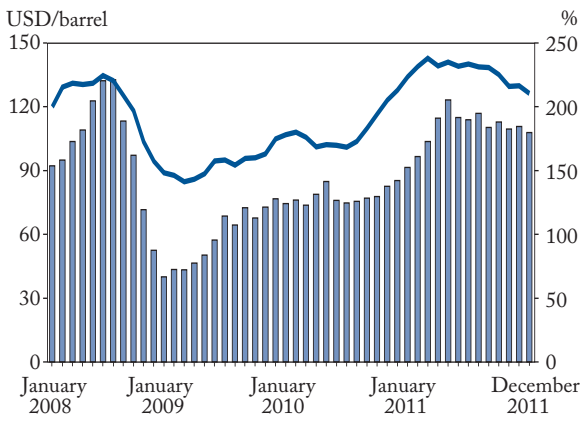
The **global food price index**[14] of the UN Food and Agriculture Organisation (FAO) was 228 points on average in 2011, the highest value of the index since the time when its calculation started in 1990, and 23% higher than in the previous year. The monthly calculated food price index was at a record level in the first eight months of the year, exceeding 230 points. It even reached 238 points in February, the highest monthly value of the indicator since the time of its calculation. By December, however, the index fell by nearly 10%, to 211 points, which was an annual minimum compared to June. The decrease observed in the second half of the year was due to especially high yields, a lower demand and a strengthening dollar. All of the sub-indices rose in 2011 compared to the previous year: higher-than-average increases were measured for vegetable oils and fats (30%) as well as cereals (35%).

In the first few months of the year the rise of global food prices affected other world economic trends as well. Through political changes in the Arabian region (the development of food prices played a significant role in the sudden emergence of social tensions in the Arabian world), accounting for a substantial part of petroleum extraction, it also influenced the price of petroleum: it enhanced the price rise because of an extended demand stemming from global recovery. As a consequence, the price of Brent crude oil reached a nearly 3-year high by the beginning of May (USD 126.64 per barrel)[15], while it was below USD 100 back at the beginning of the year. In the second half of the year the price oscillated in a wide band between USD 101 and 119, which was mostly influenced by the sentiment related to the unfavourable

[13] Non-Fuel Primary Commodities and Energy Index.
[14] Within the food price index FAO publishes sub-indices for the price change of cereals, oils, sugar, dairy products and meat products. The indices are compiled based on the price development of 55 raw materials, and are published monthly.
[15] *Source:* U.S. Energy Information Administration.

Figure 3.6

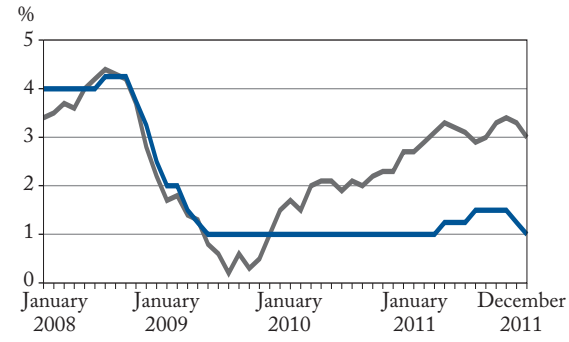
Prices in base and raw material markets



Source: U.S. Energy Information Administration; FAO.

Figure 3.7

Consumer price index and basic rate in the European Union



Source: Eurostat, European Central Bank.

perspective of global economic recovery and the low demand stemming from slowing national economic performances. In December the price already reflected the effect of the political debate on the Iranian atomic programme. At the end of the year USD 108.09 was paid for a barrel of petroleum. In 2011 the average price of Brent was USD 111.26 per barrel on the spot market, which was a rise of 40% compared to 2010. The trend increased the production costs of several branches, which were more or less built in consumer prices, too.

Industrial producer prices calculated for the EU as a whole – under considerable pressure from the rise of base and raw material prices on the world market – rose by 6.0% in 2011, a higher rate than the 3.4% in 2010. In parallel, **inflation** also accelerated in 2011. Consumer prices in the European Union were 3.1% higher than one year before. In the euro area the inflation rate was lower than that, 2.7%, which substantially exceeded the mid-term inflation target of 2.0% set by the European Central Bank (ECB). (In 2010 the inflation was 2.1% in the EU and 1.6% in the euro area.) As a result, the governing council of the bank of issue of the euro area raised the base rate from 1.00% to 1.25% at its April session on interests, and by a further 0.25 percentage point to 1.50% in July.[16] With the change in April the **standard rate of interest** moved for the first time after nearly two years from a historic low caused by the crisis. Despite the price rise exceeding the inflation target the ECB lowered the basic rate by 25 base points both in November and December, which thus became 1.00% again by the end of the year. The purpose of interest reductions was to boost the slackening economic performance of the euro area.

The performance of **money and capital markets** in 2011 was largely determined by events related to the debt crisis. Because of the disturbances in financing the general government Greece and Portugal applied for a loan from the European Union in April 2011. With this another phase of the government debt crisis hitting the euro area started. Worries increased among investors that the Greek problems might spread to other member states, too. As a consequence of this the Swiss franc gradually appreciated against the euro until September 2011. As a result of the increasing risk avoidance investors withdrew a considerable amount of capital from money and capital markets. (The larger price movements on share markets are also due to this among other factors.) A part of the available savings fled to the currency of the alpine country. As an impact of the soaring demand the Swiss currency

[16] *Source:* European Central Bank.

Helvetian economy also suffers from strong Swiss franc

Because of uncertainties on international money and capital markets an extraordinarily large amount of capital flowed to Switzerland, causing an enormous surplus in the balance of payments. Because of the excessive demand the average exchange rate of the alpine currency appreciated by over 10% against the euro in 2011. The appreciation also had an impact on macro-economic trends in Switzerland: the economic performance of the country was up by 2.7% in 2010, compared with a volume rise of 1.9% in 2011 – along with a continuous deceleration within the year.

Following a decrease of 0.7% in 2009 consumer prices in Switzerland declined again at the end of 2011. Although an inflation of 0.1% was recorded on annual level in 2011, a deflation of 0.5% was already registered in the last quarter. The strengthening franc reduced import prices, which had a substantial deflationary effect from the middle of the year. At the same time there was an inflationary pressure on exports (prices in euros must be raised so that revenues on export products should not fall in Swiss franc terms), which, all in all, made the income of enterprises producing for exports uncertain.

appreciated from an exchange rate level of about 1.25 Swiss francs/euro at the beginning of the year to approximately a 1:1 rate in August. As a result, the National Bank of Switzerland, keeping an eye on the interests of the Swiss national economy, introduced a cap on the Swiss franc to the euro on 6 September. It was decided that the euro cannot be worth less than 1.2 Swiss francs, otherwise the bank of issue would intervene to keep the exchange rate above the set level. After the rule came into force, the exchange rate of the euro ranged from 1.20 to 1.25 Swiss francs in the rest of the year.

Compared to the end of 2010 the euro appreciated by about 11% against the dollar in the first four months of 2011, exceeding the exchange rate level of 1.45 dollars/euro. At the end of August the euro started to weaken significantly, which was influenced by the cap on the Swiss franc and the downgrading of government debts of European Union member states. The depreciation of the common currency of the euro zone was amplified by the government crisis in Italy in November 2011 and the effects thereof. The euro stood at an exchange rate level of around 1.30 dollars/euro at the end of 2011.

Domestic macro-economic trends

Janus-faced domestic economic performance

By the new millennium Hungary – mainly as a result of tight relations of external trade and the interconnected ownership structure created by foreign capital investments – was integrated into the EU's economy to a high extent, and consequently the Hungarian economy followed the trends of recovery in Europe relatively closely in the past few years. The economic crisis, having burst out at the end of 2008, hit Hungary already in the process of an internal adjustment – in a rather vulnerable state: since a restrictive fiscal policy had been applied from 2006 in order to adjust Hungary's general government, facing problems of disequilibrium. With the reduction of internal demand the economic performance practically stagnated in 2007, there was little room for manoeuvring to boost the economy.

Owing to our openness the economic crisis hit Hungary rapidly, too. In the 4th quarter of 2008 the volume of gross domestic product already showed a decrease, which was followed by a fall of 6.8% in 2009. The recession lowered both domestic production and internal consumption considerably. The crisis was deepened by the general government, having faced a serious deficit, because of which there were restricted possibilities to apply an anti-cyclical economic policy. At the beginning of 2010 the recovery started in the economy of Hungary as well, but this occurred late compared with most of the EU countries. The recovery from the crisis was helped by the growing production of branches closely related to external economic trends.

In line with global economic trends the economic boom in Hungary also lost impetus by the second

Activity of foreign investments in the Hungarian economy

The stock of foreign capital investments grew continuously in Hungary in spite of the lower capital attraction ability since the turn of the millennium and the economic crisis. In 2010 the stock rose by nearly HUF 600 billion, to HUF 16,528 billion compared to the previous year. Foreign direct capital investments accounted for 62% of GDP. The capital stock of Hungarian enterprises invested abroad also grows continuously, which is largely due to some large domestic enterprises.

The volume of gross national income (GNI) rose continuously between 1998 and 2006, at rates of 3–5%, however, GNI has fluctuated since then. After the decline of 4.8% in 2009 a volume increase of 0.8% was measured in 2010. The positive balance of the compensation of employees received from abroad and payable to the rest of the world improved by 8.8% in 2009 and by 13% in 2010. The surplus reached a four-year high. The property income received from abroad expanded nine-fold between 2005 and 2009 as a result of the growing activity of the Hungarian capital invested abroad. This trend stopped in 2010: a drop of 8.7% was observed compared to the previous year. However, the property income payable to the rest of the world exceeds substantially the income flowing in. The main reason for the gap between GDP and GNI was the repatriation of the profit of foreign-owned enterprises (capital repatriation). Back in the 14 years preceding the economic crisis more than a quarter of property incomes payable to the rest of the world had been reinvested in the domestic economy. However, this proportion was only 19% and 20% in 2009 and 2010, respectively. Since 2004 the balance of taxes payable to the EU – compulsory for members – and subsidies received from the EU has been positive, which has increased the gross national income – by HUF 244 billion in 2010.

half of 2011. Nonetheless, the gross domestic product of Hungary rose by 1.7% in 2011, which has been the highest rate of growth since 2007. However, the level of the economic performance remained lower than in 2008, before the crisis. With the increase in 2011 Hungary is in the middle of the ranking of European member states.

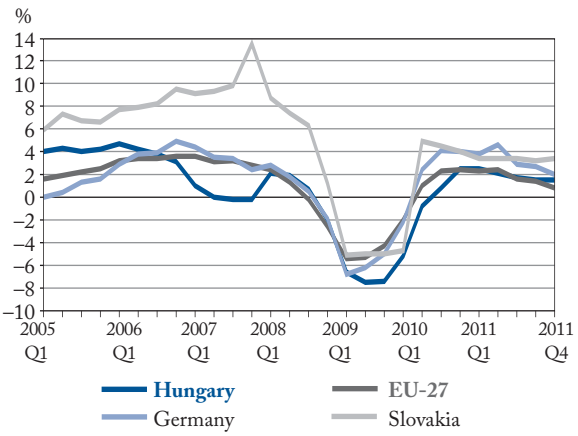
In the past few years the internal disequilibrium and the economic crisis stopped the Hungarian economy from closing up with the average of the European Union. The **per capita GDP** (in purchasing power parity) of Hungary was 54% of the EU average in 2000, 63% in 2003 and 65% in 2009. The proportion was the same in 2010 as in 2009. Among the member countries having joined the EU in 2004 and 2007, Slovenia (85%), Malta (83%), the Czech Republic (80%) and Slovakia (74%) had a higher level of development than Hungary did. As opposed to the Hungarian GDP per capita, stagnating compared to the EU average, our northern neighbour e.g., also having become an EU member, could – based mainly on the recovery in the manufacture of transport equipment – reach an improvement of 24 percentage points compared to the turn of the millennium.

The economic growth of Hungary as well as the other Visegrád countries continued to be significantly influenced by the German recovery. Demand in the German economy, considered as the driving engine of the EU, considerably boosted manufacturing in the countries of the region, and in connection with this the performance of other branches, too. In our closer region the economies of Slovakia and Poland grew at higher rates than Hungary's (by 3.3% and 4.3% respectively), while the Czech economy at a similar pace (1.7%).

Figure 3.8

GDP volume change*

(compared to the same quarter of the previous year)



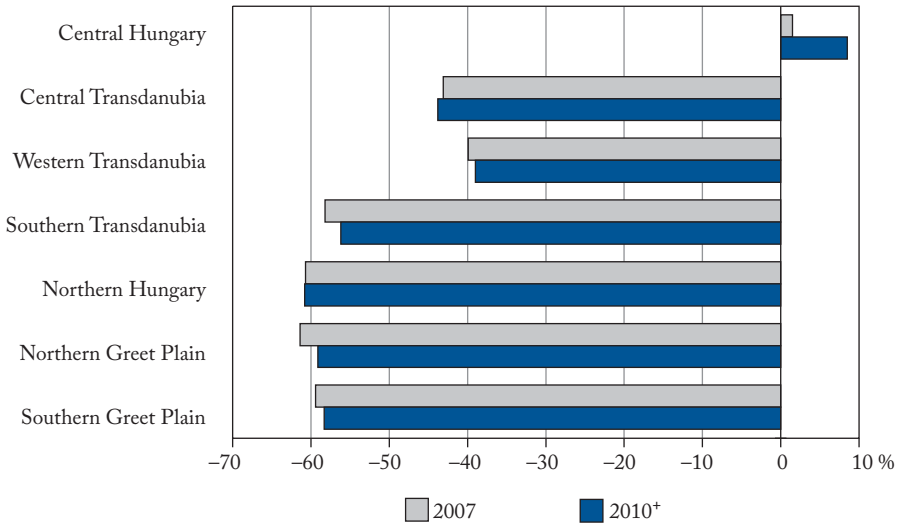
* According to seasonally and working-day adjusted data.

Economic structure centred on capital city

The most developed region, based on gross domestic product per inhabitant, the indicator applicable for the spatial comparison of domestic economic development levels, is Central Hungary, the per capita gross domestic product of which was nearly 70% higher than the national average in 2010. The region producing nearly the half of GDP is two-faced: Budapest (230% of the national average in 2010) develops continuously, while Pest county (80%) lags behind the national average at a rising rate. The central region is followed by the regions of Transdanubia in the ranking of economic development: the per capita economic performances of Western and Central Transdanubia are close to the national average (94 and 87%, respectively). Southern Transdanubia lags behind them considerably (68%), even though Tolna county (76%) is the only county in Transdanubia which could develop as a proportion of the national average compared to what was recorded three years before. Regions in the northern and Great Plain areas of the country reach 61–64% of the national value. Among them only Northern Great Plain (63%) could come closer to the national average compared to 2007. Despite the crisis the gap between Central Hungary and Northern Hungary, the least developed region, deepened further by 2010 compared to 2007: there was a 2.8-fold difference between the two regions in 2010.

Figure 3.9

Difference of GDP per capita from EU-27 average, in purchasing power parity



Similarly to Hungary, a decreasing consumption of households and a surplus on external trade, helping economic growth, were measured both in the Slovak and the Czech economies, while in Poland internal demand also increased dynamically.

Slackening domestic and slightly increasing external demand

Although the economic environment provided by the EU, becoming less favourable, is reflected in the external trade performance of Hungary too, **external trade in goods and services** remains the only driving engine of growth – from expenditure side – for the domestic economy, which at the same time contributes to our dependence on economic recovery in Europe. Back in the 1st quarter of 2011 the volume of exports and imports grew at approximately the same rate, by 14%, while in the rest of the year imports decelerated at a higher rate than exports. As a result, exports and imports rose by 8.4 and 6.3%, respectively, in 2011 compared

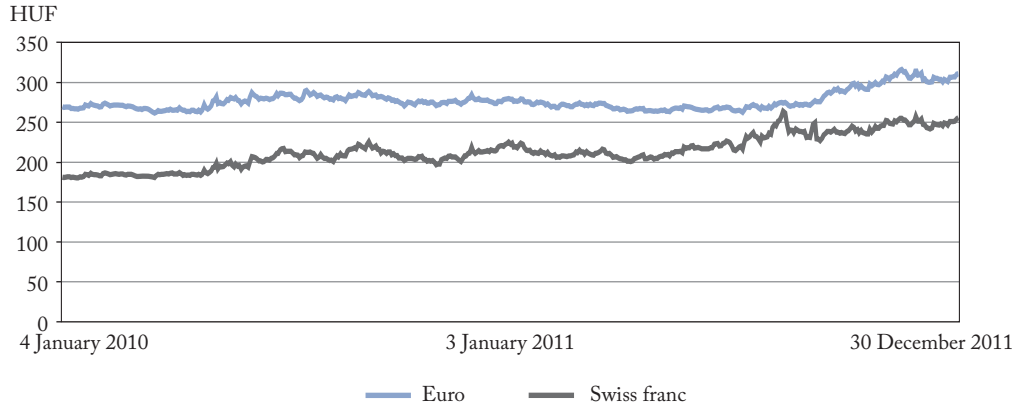
After spring 2009 forint depreciated markedly again in 2011

The exchange rate of the forint depreciated substantially against the major currencies – the dollar, the euro and the Swiss franc – in autumn 2008 and spring 2009. By March 2009 the domestic currency weakened at a rate exceeding 10% compared to the beginning of 2008. The forint reached its historic low against the euro until that time, when one euro was worth 316 forints. In 2010, with the consolidation of the financial situation in Hungary, the value of the euro moved in a wide range, between 260 and 290 forints, while the Hungarian currency weakened to a record low against the Swiss franc (225.66 forints/Swiss franc).

During movements on the money market in August–November 2011 the forint lost substantially of its value against the euro. 1 euro was worth 270.20 forints – based on data of the National Bank of Hungary – at the end of July, while it was worth already 311.13 forints at the end of December. The domestic currency depreciated by more than 15% over 6 months and by 12% compared to the end of 2010. In 2011 the average exchange rate was 279.21 forints/euro, which meant, however, a rise of 1.4% only. The exchange rate reached the annual high of 316.24 forints at the time of the government crisis in Italy in November. The Hungarian currency depreciated substantially against the Swiss franc as well. The depreciation of the exchange rate was continuous, though with more moderate fluctuations, mainly as an effect of European economic policy events in spring and August–early September. The depreciation against the franc was first of all due to the strengthening of the Swiss franc against the euro, which had its impact on the domestic currency through cross rates. The forint weakened to a record level against the alpine currency on 10 August: 1 Swiss franc was worth 263.92 forints at the bank of issue that day. After the central bank of Switzerland introduced at the beginning of September a bottom cap on the franc's value against the euro, the exchange rate of the franc moved in a band of 230–250 forints until the end of October, which it left at the beginning of November because of an additional weakening. The exchange rate of the franc against the forint was 255.91 forints at the end of December, which was a depreciation of 15% compared to the end of 2010. The average exchange rate was 226.90 forints/Swiss franc in 2011, which meant a depreciation of 13% compared to 2010.

Figure 3.10

Exchange rate of HUF



Source: National Bank of Hungary.

The forint weakened at a significant rate against the dollar as well in the second half of the year. At the end of 2011 one dollar was equal to 240.68 forints, a deterioration of 15% compared to the end of 2010. The weakening against the dollar was influenced by the gradual depreciation of the euro against the dollar. The performance of the forint against the 'greenback' had a sizable effect on the increase of domestic automotive fuel prices.

to the previous year. The decrease of the growth rate was influenced by the high base as well as a slackening external demand. The expansion of imports was reduced by a weak internal demand and the deceleration of exports because of the significant import content of export products (e.g. in case of electronic products assembled in inward processing). The forint price level of both exports and imports increased at a higher rate (by 2.9% and 5.0% respectively) than in the previous year. The volume change dominantly occurred in trade in goods. A surplus of HUF 2,071 billion was generated on the external trade of Hungary in 2011, and the balance of net exports was 7.4% of GDP. Thus the balance of external trade reached its highest proportion of GDP in the past few years, with which our openness towards the global economy grew substantially.

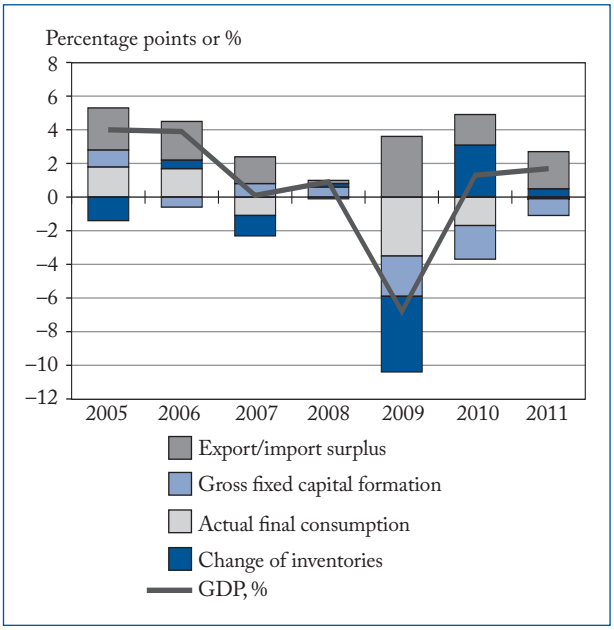
Internal demand – similarly to the previous two years – did not help the growth of the domestic economy in 2011, either. **Domestic use** diminished by 0.5%, which largely resulted from the decrease of investments. The growing openness of the Hungarian economy is shown by the share of internal demand (92.6%) in gross domestic product declining further in 2011. (In 2008 the share of domestic use was 99.5%. In the subsequent years this share lessened gradually.)

The volume of household final consumption expenditure, influencing the development of domestic use considerably, grew slightly during the year except for quarter 1, in spite of which stagnation was registered over the year as a whole. The volume of social transfers in kind received from the government rose by 0.5%, while that of transfers from non-profit institutions serving households diminished by 0.3%. As an aggregate effect of transfers the **actual final consumption of households** rose slightly, by 0.1%. Despite the rising purchasing power of households (real wages and salaries were 5.8% higher on average than in the previous year) the indebtedness of households became even more marked in 2011 among factors hindering consumption. As a consequence of increased instalments owing to the weakening exchange rate of the forint and the unfavourable situation on the labour market, households postponed their purchases (of e.g. real estate property or dispensable durable consumer goods) and increased their savings. As an impact of the latter the net financial savings rate of households rose in the last few years.[17] Consumption was not influenced substantially by changes in the tax system and the interim payment of real returns on private pension funds, either.

The **actual final consumption of government** decreased in each quarter of 2011, and a fall of 1.3% was observed over the year as a whole. The decline of demand stemmed from the improvement to the government balance. The development of consumption was determined by less room for fiscal manoeuvres. Actual final consumption, the total of the actual final consumption of households and of government, was essentially unchanged (–0.1%) during 2011 as a whole.

Figure 3.11

Contribution to change of GDP on expenditure side



The volume of **gross fixed capital formation,** decreasing for three consecutive years, went down by 5.4% in 2011. All this reduced the growth of economic performance significantly last year. The

[17] *Source:* Report on inflation, March 2012. National Bank of Hungary, 2012.

share of gross fixed capital formation of gross domestic product fell markedly in the past few years: it was a mere 16.7% in 2011 compared with 21.7% in 2008. The drop of gross fixed capital formation in the last few years decelerates the regeneration of the domestic economy after the crisis and makes the perspectives for future growth uncertain.

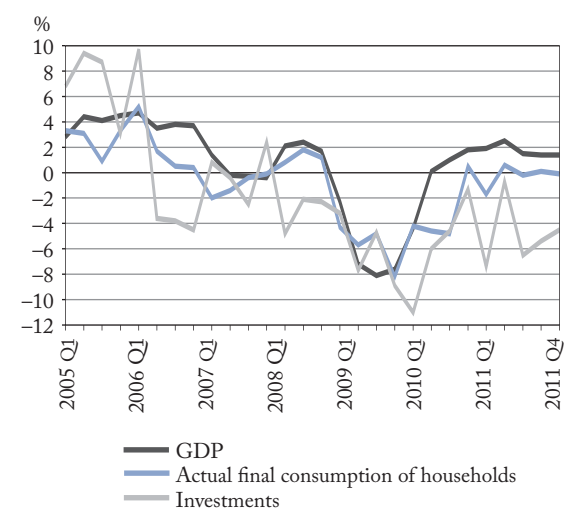
Investments in the national economy, with a share of over nine-tenths of gross fixed capital formation, continued to decrease: the volume in 2011 was 4.5% lower than in the previous year. Within this, investments in machinery and equipment rose by 8.8% as an effect of the majority of manufacturing sub-sections and the suddenly increasing purchases of utility motor vehicles by enterprises, but construction investments fell by 14%.

The low level of investment can be attributed both to demand and supply factors. The inclination to develop was negatively affected by the deteriorating business outlook (the value of the ESI index of confidence, calculated by the European Commission, gradually decreased in 2011) and the financial system's invariably low willingness to lend. The latter has its impact through rising financing costs. The increase of investments is made uncertain by the low utilisation of capacities in manufacturing: about 76% of available capacities were utilised in 2011, which is lower than the average of the past 5 years.

In the majority of industries the volume of investments in tangible assets decreased, while in manufacturing, realizing more than a quarter of total investments in the national economy, a growth of 24% was measured. Among the larger subsections of manufacturing substantial rises were recorded in the manufacture of transport equipment, machinery and equipment n.e.c., basic metals and fabricated metal products, basic pharmaceutical products and pharmaceutical preparations, as well as textiles, wearing apparel, leather and related products. The most significant investments, also reflected in the national economic performance, were implemented in the manufacture of transport equipment: the expansion of the factories of Audi and Opel, and the establishment of a Mercedes plant at Kecskemét were especially important among them. Between 2011 and 2013 – in the frame of an investment to be realized from over EUR 900 million – Audi will expand the Győr factory to become a plant covering the whole production process. In Opel's motor works in Szentgotthárd an expansion of EUR 500 million is going to be realized by the end of 2012. To establish the factory unit at Kecskemét, which was to start production on 29 March 2012, the German car concern Daimler AG spent EUR 800 million.[18] However, the investment performance of the rest of the industries with large weight fell. Developments in real estate activities shrank by 20%, first of all owing to a marked drop in dwelling constructions. As an impact of a significant decrease of investments in land transport, transport via pipelines, air transport, furthermore, expressway network constructions and renovations, transportation and storage fell by 23%. Among the industries having lower share, a considerable rise (42%) was recorded in the area of health services, thanks to some developments of health institutions, realized from EU funds, as well as in mining (26%), scientific and technical activities (7.4%) and agriculture (6.8%).

Figure 3.12

GDP and the major items of expenditure
(change on the same quarter of the previous year)



The decrease of the output value of investments of government institutions and enterprises with a

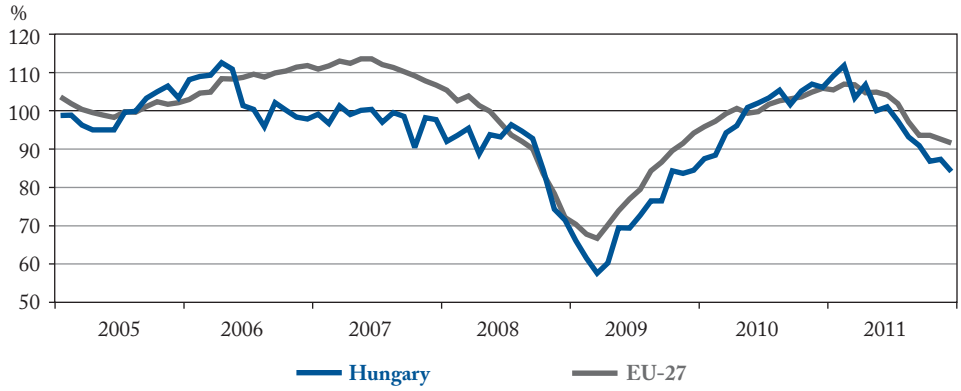
[18] *Source:* Websites of Audi, Opel, Mercedes-Benz.

Pessimistic expectations again by end 2011

The European Commission calculates an indicator of confidence each month, the Economic Sentiment Indicator (ESI) for the member states as well as the EU as a whole.

Figure 3.13

ESI indicator*
(monthly average of 1990–2011=100%)



* According to seasonally adjusted data.

The mood of the economic actors in the European Union deteriorated in 2011. During 2011 fears of recession increased because of the debt crisis of Southern European states. The expectations of Hungarian economic actors were somewhat more pessimistic than the average of the European Union, and the difference between the Hungarian and the EU average – as a result of external and internal economic trends – grew by the end of the year.

low staff size, as well as the substantial decline of real estate investments of households led to the 4.5% decline of the volume of investments in the national economy in 2011. The fall of investments of government institutions – primarily because of local governments – was lowered by investments related to flood control works and the red sludge disaster recovery, financed from the central budget. Opposite to the decreasing or stagnating trend observed in the previous three years, investments of enterprises employing at least 50 persons rose by 3.7% in 2011, first of all due to large enterprises in manufacturing.

Enterprises continued to accumulate inventories in 2011, which contributed in a positive way to the expansion of economic activity. The **change in the stock of inventories** was HUF 654 billion, significantly exceeding the rise of HUF 116 billion in 2010. Nevertheless, the level of inventories is still low compared to what was registered in the period before the crisis.

Agriculture and industry were driving forces in 2011

The crisis and the low level of internal demand hindered production in the domestic economy: the volume of gross domestic product was 3.2% lower in total in 2011 than in 2007, before the crisis. Among industries the gross value added was substantially higher in agriculture as well as information and communication, and slightly more in real estate activities than in 2007.

The growth of the national economic performance in 2011 was – from production side – due to industry, producing for exports, on the one hand and agriculture on the other hand. The aggregate performance of goods-producing branches increased by 6.3%, while that of services diminished by 0.6%. The performance of branches shows heterogeneity.

In 2011 the performance of **agriculture** – compared to the low base caused by inundations

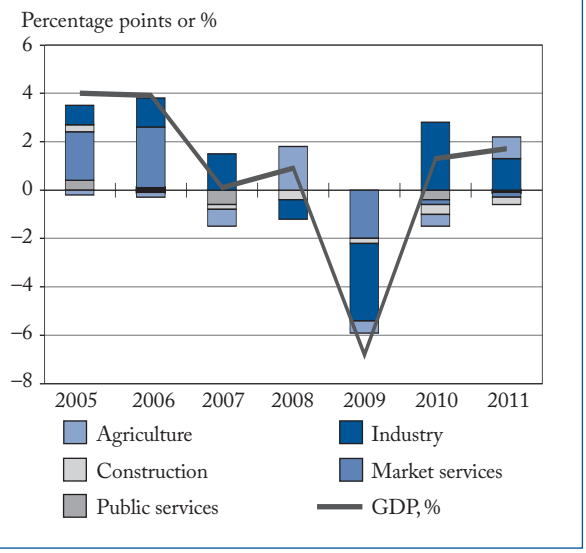
and the poor harvest – expanded by 27%, which primarily resulted from the especially high rise of the value added by crop production.

The increase of **industrial performance**, closely related to the European economic boom, decelerated after the high growth in the first quarter (11%), which was influenced by trends in the base period and shrinking external demand. Industry reached a volume increase of 5.7% in 2011, within which manufacturing 7.0%, contributing to the growth of GDP significantly. Manufacturing companies with sales on external markets were considered as the driving engine, for domestic demand still failed to boost the expansion of industrial output. Within manufacturing, a considerable increase of production was registered in the manufacture of machinery and equipment n.e.c., in textile industry, in the manufacture of basic metals and fabricated metal products as well as transport equipment. However, the output lessened substantially in the manufacture of computer, electronic and optical products, as well as electrical equipment.

The output of **construction** – parallel to investments in construction – has already been declining for four and a half years continuously, a drop of 7.9% was measured in 2011. Production shrank in all main groups of construction compared to the previous year. In addition to the lack of large investments, dwelling constructions fell by some 40%, and the number of issued new dwelling construction permits was down by 25%.

Figure 3.14

Contribution to change of GDP on production side



Low internal consumption also relevant in services sector

In line with low internal demand the volume of the **services sector,** representing a share of 62% of gross value added, decreased all over the year, by a total of 0.6%. The performance of non-goods-producing branches showed a heterogeneous picture in 2011. In **public administration, education and health care** – a group of branches comprising services typically financed by the state –, having the largest weight, it diminished by 0.3% (by 0.8% in the first half of the year). After a volume decrease in previous years the volume of gross value added by **wholesale and retail trade as well as accommodation and food service activities** also lessened by 0.3% in 2011. In the last few months of the year the weakening of the exchange rate of the forint had a favourable impact on the performance of this group of branches. The largest fall was recorded in **financial and insurance activities.** An important factor of the decrease was that the lending activity of banks remained at a low level, inter alia because of stricter conditions on lending. In addition, the performance was deteriorated by the rising share of non-performing loans unpaid for after 90 days, and a special tax on financial corporations, similarly to the previous year. The value added by **real estate activities** was 1.6% lower than in the previous year. Similarly to the past few years the recovery of the weak real estate market is made difficult by the risk-avoiding and strict lending practice of the financial system.

A rise was only seen in three services industries at an annual level. Among them the output of **transportation and storage,** closely related to exports, was up by 0.8%. In spite of the high base (the growth was 4.8% in 2010) and the crisis tax hitting the telecommunications sector the performance of the group of branches of information and

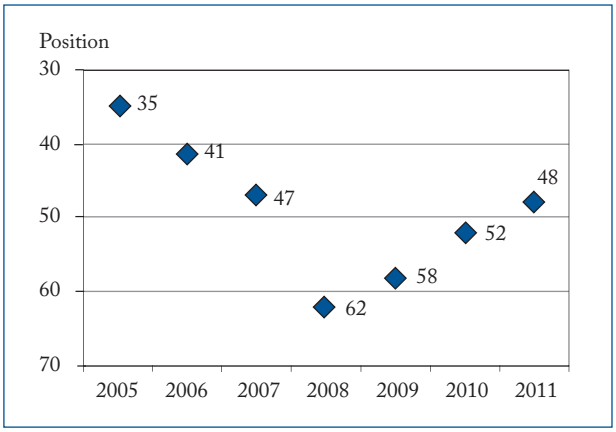
communication grew by 2.1%. The volume of value added by arts, entertainment, recreation and other service activities rose by 2.7% in 2011 following an expansion of 3.4% in 2010.

Competitiveness of Hungary and Central and Eastern European countries

According to the latest report of the World Economic Forum on global competitiveness Hungary was the 48th most competitive country in the world in 2011. Hungary's position became 4 places more favourable than in the previous year, however, it was still ranked considerably lower than before 2007.

Figure 3.15

Position of Hungary in competitiveness ranking



In 2011 Hungary was the fifth country from the point of view of competitiveness among the eleven Central and Eastern European states – EU members or to-be members in the near future. The most competitive state in the region was Estonia last year, too, and – similarly to most of the years between 2007 and 2010 – it was followed by the Czech Republic. Besides them Poland and Lithuania also reached more favourable positions in 2011 than Hungary did.

The competitiveness ranking is established using global competitiveness indices. The value of the index is calculated for the examined countries each year, and based on them rankings are established. The index is made up of pillars representing different areas of competitiveness, for which country rankings are also available. With respect to the competitiveness pillars of the Central and Eastern European region, one can point out that the strengths of Estonia, heading the ranking, are labour market efficiency, macro-economic environment as well as higher education and training. (As for labour market efficiency e.g., the Baltic state was ranked in the 16th most favourable position by the specialists of the World Economic Forum, which is the highest-positioned pillar in the region as a whole.) In case of the Czech Republic, second in the region and considered as the most competitive out of the Visegrád countries, the best-performing pillar was higher education and training, which was followed by technological readiness (positions 30 and 31, respectively). However, the Czech Republic has room for a great leap forward in the 'institutions' pillar, where it was at position 84 only in the world ranking in 2011.

Table 3.2

Position of Central and Eastern European countries in global competitiveness ranking (and in the region)

Country	2007	2008	2009	2010	2011
Bulgaria	79 (11)	76 (11)	76 (11)	71 (10)	74 (9)
Croatia	57 (9)	61 (8)	72 (10)	77 (11)	76 (10)
Czech Republic	33 (2)	33 (2)	31 (1)	36 (2)	38 (2)
Estonia	27 (1)	32 (1)	35 (2)	33 (1)	33 (1)
Hungary	**47 (7)**	**62 (9)**	**58 (7)**	**52 (6)**	**48 (5)**
Latvia	45 (6)	54 (7)	68 (9)	70 (9)	64 (7)
Lithuania	38 (3)	44 (4)	53 (6)	47 (5)	44 (4)
Poland	51 (8)	53 (6)	46 (4)	39 (3)	41 (3)
Romania	74 (10)	68 (10)	64 (8)	67 (8)	77 (11)
Slovakia	41 (5)	46 (5)	47 (5)	60 (7)	69 (8)
Slovenia	39 (4)	42 (3)	37 (3)	45 (4)	57 (6)

The World Economic Forum classifies countries into groups by their stage of development, which it also uses to establish competitiveness indices. (As a matter of fact, competitiveness-enhancing factors are different for countries belonging to different groups of development, and so pillars are given different weight when determining index values.) There are five groups in total: the least developed countries are classified in groups described as factor-driven, medium ones in

efficiency-driven, and the most developed countries in innovation-driven groups. (Two groups are 'in transition' between these stages.) The majority of the countries in the region – including Hungary, as well as Estonia, regarded as the most competitive in the region – were classified between the efficiency-driven and the innovation-driven stages in 2011. Two countries, Bulgaria and Romania were in the less developed, 'efficiency-driven' group, while the Czech Republic and Slovenia can be found in the most developed, 'innovation-driven' group.

Considering the different pillars, the smallest gap (42 places) between the positions of the best and the worst-performing Central and Eastern European countries was observed in the area of health and primary education, while the largest (100 places) in labour market efficiency.

Hungary reached the most favourable, 34th position in the area of innovation in 2011 among 142 countries of the world. In this pillar the 'quality of scientific research institutions' was our best-performing indicator, where we reached the distinguished 20th position in the ranking of countries. Our weakest performance was position 73, which we reached in the 'institutions' pillar. (The institutional environment means the legal and administrative framework within which individuals, enterprises and government representatives interact to generate wealth.) Out of the indicators of this latter pillar the heads of Hungarian firms rated the 'burden of government regulation' so high according to the survey conducted in the first half of 2011 that our indicator put Hungary at the 135th position. (This was our least favourable position out of the 113 indicators.)

The comparison of the positions we reached in the surveys carried out in 2010 and 2011 reveals that the most significant improvement occurred in 'goods market efficiency', while the largest deterioration in 'higher education and training' (12 and 11 places, respectively) during one year. However, it is to note that competitiveness rankings are relative: they reflect the position of countries compared to one another. Accordingly, a country or one of its pillars might reach a less favourable position in a subsequent year even though more considerable amounts of resources were spent on developing the country or the particular area than earlier on. (And vice versa: it might move up in the ranking even if it used less resources than formerly.)

The high indebtedness of certain countries and the need to reduce it have an impact on competitiveness as well, for a relatively substantial part of available

Table 3.3

Hungary's position by pillars of global competitiveness index, and best and worst-performing Central and Eastern European countries by different pillars

Pillar		Hungary's position		Highest	Lowest
number	denomination	in the 2011 ranking (among 142 countries)	in the 2010 ranking (among 139 countries)	ranking countries in the region in the 2011 ranking	
1	Institutions	73	79	Estonia	Bulgaria
2	Infrastructure	46	51	Czech Republic	Romania
3	Macro-economic stability	67	69	Estonia	Latvia
4	Health and primary education	54	57	Slovenia	Romania
5	Higher education and training	45	34	Slovenia	Bulgaria
6	Goods market efficiency	55	67	Estonia	Croatia
7	Labour market efficiency	66	62	Estonia	Croatia
8	Financial market sophistication	63	68	Poland	Slovenia
9	Technological readiness	36	37	Estonia	Romania
10	Market size	52	49	Poland	Estonia
11	Business sophistication	69	69	Czech Republic	Romania
12	Innovation	34	41	Estonia	Slovakia

resources has to be spent on debt service instead of investments. According to a publication of OECD[19] research and development, innovation and education are the areas where the reduction – serving short-term purposes and related to fiscal considerations – of expenditures requires very much care. Namely, the development of these areas increases the competitiveness of countries in the long term, which is shown in higher economic growth and after all the consolidation of their financial situation.

In the first half of 2011 most of the heads of Hungarian firms considered the difficulty in borrowing as the biggest problem from the point of view of business administration. (Their share of total respondents grew by 3 percentage points compared to when the former survey was conducted one year earlier, and equalled 18%.) The complexity of the tax system and the high level of taxes caused a problem for many (13 and 11%, respectively) of them.

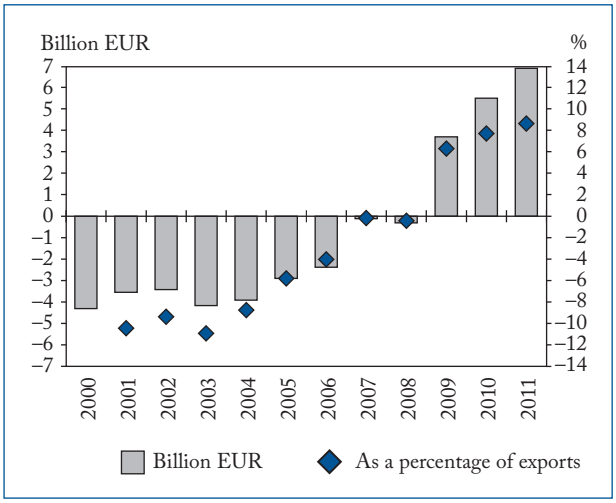
External trade

Decelerating volume increase, dynamically growing surplus on external trade in goods

In parallel to the growing dependence of Hungary on external markets and the decline of internal demand, external trade in goods and services became one of the most important driving forces of the Hungarian economy. Following a low at the beginning of the 1990s and then a slow increase the volume of both exports and imports grew dynamically, at two-digit rates from 1997 – disregarding the slowdown in 2001 –, which exceeded those measured in the European Union from 2006. This trend was broken by the global economic crisis that started at the end of 2008, and both exports and imports fell substantially as an effect of that. The volume decrease started to slow down – because of the low base – in October 2009, and the slight growth starting from November changed to a two-digit increase from February 2010. Data of 2011 show somewhat lower rises than in the previous year both in exports and imports: along with the deceleration of growth rates quarter by quarter, the volume of exports was up by 10% and that of imports by 6.9% over the year as a whole. Compared with the gradually decreasing and then stagnating deficit in earlier years, there was a surplus on the balance of external trade of Hungary from 2009, increasing year by year, the value of which was EUR 6,886 million in 2011.

Figure 3.16

Balance of external trade in goods
(at current prices)



Significant dependence on the market of the EU and especially Germany

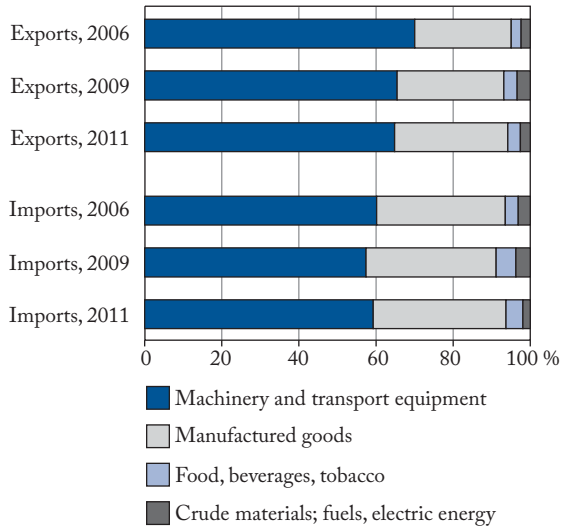
The considerable amount of surplus was mainly generated in the trade with **EU member states**, considered as the most important partners of Hungary in external trade since the beginning of the 1990s. 76% of the exports and seven-tenths of the imports of Hungary were concentrated on this group of countries in 2011, and 55% and 52% of total trade, respectively, was accounted for by the trade with the 15 old EU states, members before 2004. Our most substantial partner countries among them were Germany, Austria, Italy, France and the United Kingdom on the export side and Germany, Austria, the Netherlands, Italy and France on the import side, in these orders. The above-listed countries represented over eight-tenths of both our

[19] *Source:* OECD Economic Outlook, Volume 2012/1, OECD Publishing, 2012.

exports to and imports from the old member states. Germany is especially important among them, since in addition to a quarter of both the export and import trade of Hungary being realized in the external trade with this country, some six-tenths of this trade is accounted for by machinery and transport equipment, very important from the point of view of our external trade. As the outstanding share of Germany of Hungary's external trade can be regarded as stable for years, the economic trends there have become factors influencing the development of the external trade and the economic life of Hungary, too.

Figure 3.17

Composition of Hungary's external trade with Germany by main commodity groups
(calculated from data in EUR)

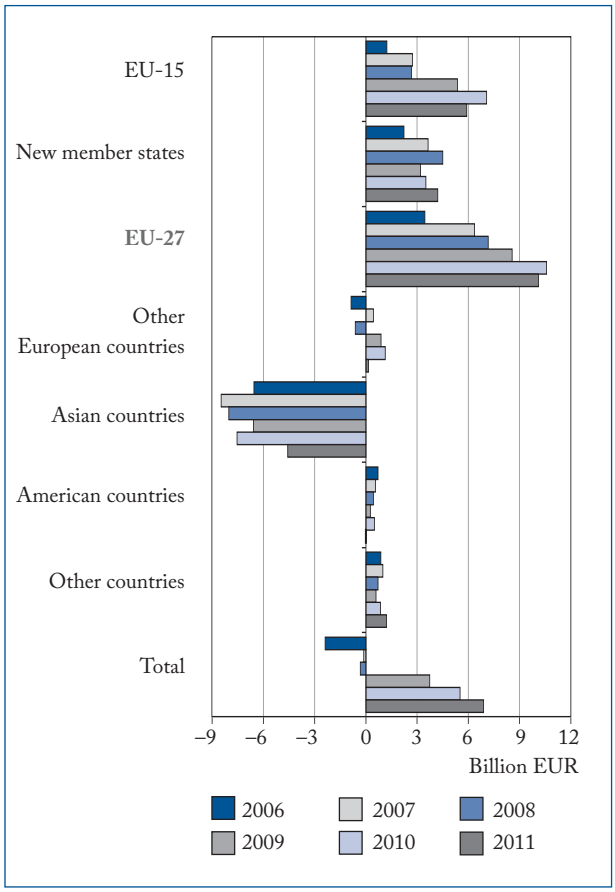


Our external trade relations are the liveliest in both exports to and imports from the Czech Republic, Poland, Romania and Slovakia out of new member states: these countries represent nearly nine-tenths of our external trade with new member states. The trade with neighbouring countries accounts for 22% of imports and 18% of exports. Our external trade relations are the liveliest with Austria, Romania and Slovakia among the seven neighbouring countries.

Our exports to EU member countries represented a 7.8%, and our imports from there a 10% larger volume in 2011 than one year before. Within this, exports and imports were up by 6.3 and 9.5%, respectively in case of old member states, while the rate of volume increase was somewhat higher, 12% in both exports to and imports from new member states. Looking at the trade with the EU as a whole, the surplus on the balance of external trade amounted to EUR 10.1 billion, EUR 469 million less than in the previous year. The deterioration of the balance stemmed from the EUR 1.2 billion decrease of the surplus on the trade with old member states, while our surplus on the trade with new member states grew further, by EUR 697 million compared to our surplus of EUR 3.5 billion one year earlier. Old and new member states represented approximately 60% and 40%, respectively, of the surplus, similarly to the previous two years, and in an inverse proportion to what had been recorded before the crisis, in the period between 2006 and 2008.

Figure 3.18

Balance of external trade in goods by main groups of countries
(at current prices)

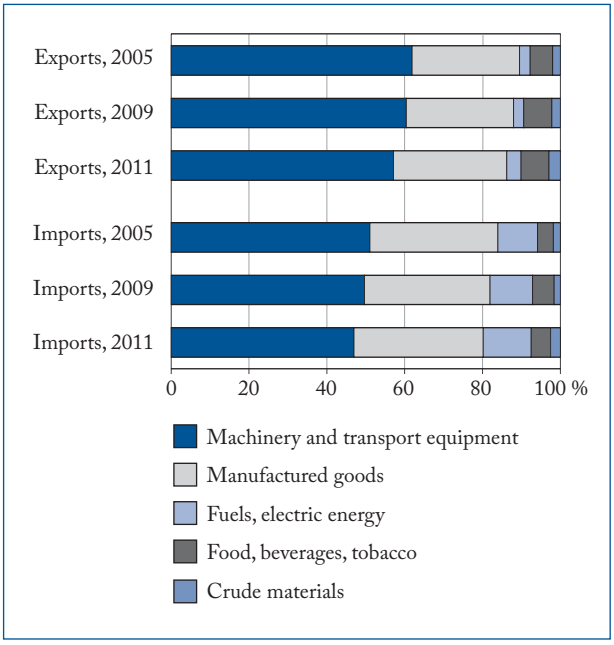


Imports of basic materials and parts from Asia play an outstanding role in satisfying import needs of Hungary's exports

Hungary's **extra-EU** – as opposed to intra-EU – trade has had a substantial import surplus for years, which was the consequence of the higher – two-digit – growth of the import volume than that of exports before the global economic crisis. As an impact of the crisis the pace of volume growth slowed down to a one-digit level both in exports and imports in 2008, and changed into a decrease of 15% in case of both exports and imports in 2009. The growth rate of the export volume in 2010 (23%) was already higher than that of imports (16%), this difference having kept on increasing in 2011, when the 18% expansion of the export volume was parallelled by the stagnation of the import volume. As an effect of this the trade deficit decreased from EUR 5,059 million in 2010 to EUR 3,219 million, which was dominantly influenced by the external trade of Hungary with Asian countries. The deficit on the trade with Asian countries was down by some EUR 3 billion to EUR 4.6 billion in 2011, predominantly owing to the fall of imports of telecommunication and sound recording and reproducing apparatus and equipment as well as electrical machinery, apparatus and appliances from Hong-Kong, Japan, China, the Republic of Korea and Singapore. Within this, the fall mainly affected the imports of parts needed for the manufacture of television sets and smartphones. In addition to that, in case of imports from Japan, the tie-ups of the supply of parts because of the tsunami in spring 2011 caused problems for the manufacture of transport equipment in Hungary. A surplus of EUR 159 million was generated on the balance with European countries outside the EU, nearly EUR 1 billion less than one year earlier. The main factor of this was the deficit on the external trade with Russia increasing by EUR 1.2 billion in 2011 compared to the previous year, mainly as a result of the considerable price rise of petroleum and petroleum products coming from there.

Figure 3.19

Commodity pattern of external trade



Engines of Hungary's external trade: manufacture of transport equipment and medicinal and pharmaceutical products

The most important commodity group of Hungary's external trade in goods was represented by **machinery and transport equipment** in 2011, too, which accounted for 57% of the value of total exports and 47% of total imports. The two-digit increase, characterizing both the exports and imports of this main commodity group from the middle of the 2000s, decelerated in 2008 as an impact of the crisis, and changed to a decrease of nearly 20% in 2009, which was followed by an approximately equal rate of growth in 2010 as an effect of the low base. In 2011 the growth rate of both exports and imports slowed down gradually, quarter by quarter, the volume increasing by 8.5% on the export side and by 4.1% on the import side over the year as a whole. Both the exports and imports of general industrial machinery and equipment, power generating machinery and equipment and road vehicles grew dynamically within this main commodity group, as opposed to the decreasing trade in telecommunication, sound recording and reproducing apparatus and equipment – considered

as a driving force of machinery branches. The reason for this was chiefly the substantial fall measured in the exports of television sets and parts since May and the lower decline in their imports.

External trade in **manufactured goods**, the second largest main commodity group, representing 29% of exports and 33% of imports, is influenced – due to the colourful and heterogeneous product scale – by several economic trends of different magnitude, many times having totally opposite effects. In the 2000s varying volume increases were recorded in both the exports and imports of this main commodity group – except for exports in 2003 –, which turned into a fall of 7.8% in exports and of 15% in imports in 2009 as an impact of the crisis. In 2010 – also because of the significant base effect – exports and imports grew by 15% and 13%, respectively, and with the continuation of these growth rates higher rates of growth were registered in both exports and imports in 2011 than for machinery and transport equipment. One of the major driving forces of the growth within this main commodity group was medicinal and pharmaceutical products, the volume of which was up at a two-digit rate in both exports and imports. A higher-than-average increase was observed in addition both in the exports and imports of rubber manufactures, as well as the exports of professional, scientific and controlling instruments out of the products closely related to the manufacture of transport equipment. However, the growth of trade in plastic products and non-ferrous metals, also having a considerable weight within this main commodity group and partly depending on orders for telecommunication apparatus and equipment, remained below the average.

The share of the main commodity group of **food, beverages and tobacco** was 7.2% of exports and 5.0% of imports in 2011. After a two-digit increase in the volume of imports and a one-digit rise in that of exports – except for year 2007 –, realized following our EU accession, the growth of trade in this main commodity group started to lessen in 2008 due to the crisis, then in 2009 exports stagnated as long as the volume of imports was down by 7.4%. Following the volume increase of 14% on the export and of 5.4% on the import side in 2010, the growth of trade in this main commodity group diminished quarter by quarter, so the pace of increase decelerated to 0.6% and 5.0%, respectively, in 2011 as a whole. The volume of exports of cereals and cereal preparations, representing the largest weight in exports, was – in parallel to an about 40% rise of prices – over 10% lower than in the previous year, which was offset by the substantial increase of exports of live animals in extra-EU trade. With respect to imports it was the volume of meat and meat preparations that rose at a rate above the average.

The volume of imports of **fuels and electric energy** grew at a much lower rate than the average, by 3.8% in 2011, which, accompanied by the 24% rise of energy prices, brought a significant value increase in the trade of this main commodity group. The exports of fuels and electric energy, much lower in volume than imports, were 16% higher than in the previous year.

Following a fall in 2009 because of the crisis external trade in **crude materials**, the smallest main commodity group, representing 2–3% of trade, increased at a higher rate both in exports and imports than before. Although after the 14% rise of exports and the 28% increase of imports in 2010 the growth rates decelerated to 13% and 15%, respectively, in 2011, the rates of increase were even so higher than the average.

The **forint price level** of exports rose by 2.9% in 2011 following an increase of 1.6% in 2010, similarly to that of imports, where the rate of increase accelerated from 1.7% to 5.0%. Forint prices were influenced by foreign currency prices as well as the change of the exchange rate of the forint. Following a considerable weakening (of 13%) against the major currencies – at an annual level on average – in 2009, the forint strengthened by 1.1% in 2010, while it depreciated again by 0.6% in 2011, a fact attributable to the 1.4% weakening of our national currency against the euro. Because of the change of the exchange rate the foreign currency price level was some 10% lower in 2009 both in exports and imports than in the previous year, while some 3% higher both in exports and imports in

2010, and 2.2% more with respect to exports and 4.3% higher in imports in 2011 than one year earlier. As a consequence of the change of forint prices in external trade the **terms of trade** deteriorated by 2.0% in 2011. The rise of export prices at a lower pace than or nearly the same rate as that of import prices has been typical of Hungary's external trade since the beginning of the 2000s, with the exception of 2009, when as a result of the significant increase of export prices the terms of trade improved by 1.8%.

Steady growth in international trade in services

In a globalising world economy international trade in services has an increasing role, since in addition to helping considerably the many different actors operate efficiently in an international environment, thanks to the development of information and telecommunications tools the scope of services appropriate for trading is continuously expanding, too. Four large groups of services sold and purchased between different countries can be distinguished in line with EU legislation. In the travel services group the expenditures of foreigners in Hungary and the expenses of Hungarians abroad are accounted for, while in case of transport services the subject of services is to ensure the change of place of a good or person by sea, air, rail, road, inland waterways, via pipelines or in other ways, as well as warehousing. The largest proportion of international trade in services is represented by business services, which comprise royalties and licence fees, communication, construction and installation, insurance, financial, computer and information, personal, cultural and recreational, and other business services. Within this latter, merchanting, business and management consultancy and PR services, research and development services and services between affiliated enterprises have a substantial role in Hungary's external trade. Government services cover services based on intergovernmental and international treaties, which are used by embassies, consulates, military units and agencies as well as international organisations in the particular country.

Similarly to 2010, **international trade in services** – accounting for 16% of total exports and 14% of total imports – grew at a lower rate in 2011, too, than external trade in goods, which was also due to the crisis having affected this area in 2009 to a lower extent than trade in goods. The euro value of services

Table 3.4

Rankings of major partner countries of Hungary in international trade in business, transport and government services, 2011

(calculated from data in EUR)

Exports			Imports		
rankings, countries	share of total trade, %	previous year = 100.0	rankings, countries	share of total trade, %	previous year = 100.0
1. Germany	15.2	120.0	1. Germany	19.9	114.9
2. United States	8.5	107.0	2. United States	14.1	102.2
3. United Kingdom	7.9	121.1	3. United Kingdom	7.9	104.0
4. Austria	7.2	117.9	4. Netherlands	7.3	114.6
5. Italy	4.7	99.8	5. Austria	6.5	107.6
6. Netherlands	4.3	129.2	6. France	3.5	109.9
7. Japan	4.2	92.4	7. Slovakia	3.0	120.9
8. France	3.7	97.5	8. Switzerland	2.6	107.0
9. Switzerland	3.5	106.0	9. Ireland	2.5	109.5
10. Spain	3.5	95.1	10. Czech Republic	2.4	108.0
Selected countries, total	62.8	110.8	Selected countries, total	69.5	109.4
Total	**100.0**	**107.0**	**Total**	**100.0**	**105.7**

exports was up by 7.0% in 2011, while that of imports at a somewhat lower rate, by 5.7%, so the growth of the surplus, having started in 2009, continued: the balance of international trade in services had a surplus of EUR 3.5 billion at the end of 2011, which was EUR 374 million more than one year earlier.

About seven-tenths of both the exports and imports of services were realized with the countries of the European Union in 2011, and in case of both exports and imports nearly 60% of total trade was accounted for by old member states. The balance of international trade in services had a surplus of EUR 2.1 billion for the European Union as a whole at the end of the year, which was an improvement of the balance by EUR 320 million compared to 2010. In extra-EU trade, the value of exports exceeded EUR 1.5 billion in the trade with European countries outside the EU as well as in the trade with America and Asia. In extra-EU imports American countries are ranked in the first place, with EUR 1.7 billion. Extra-EU countries contributed to the improvement of the balance of international trade in services by a total of EUR 54 million.

The most important group of international trade in services was represented by business services in 2011, too, accounting for somewhat more than half the euro value of total exports and nearly two-thirds of imports. In this services group, typically showing a negative balance in former years, a surplus was generated in 2010 for the first time, the EUR 126 million value of which increased to EUR 219 million in 2011. The largest expansion occurred in the trade in services between affiliated enterprises not included elsewhere: in 2011 their exports and imports were 57% and 18% higher respectively than in 2010. Moderate increases of 6–11% were registered in both the exports and imports of computer and information services as well as in the imports of research and development services, which was first of all due to a recovery in external trade relations with Germany. In contrast, both the exports and imports of personal and cultural as well as communication services decreased in euro terms, as well as the imports of construction and installation services.

Similarly to former years, the slight decrease of travel, representing somewhat more than one quarter of exports and nearly one-sixth of imports, continued in 2011, too. In the examined period the euro value of exports diminished by 0.3%, while that of imports by 1.6% compared to the previous year.

The euro value of the exports and imports of transport services, accounting for some one-fifth of total trade, was 15% and 8.3% higher, respectively, in 2011 than what was measured one year before. The exports of air transport, representing nearly four-tenths of total transport services, grew by 18%, while its imports by 13%, furthermore, both the exports and imports of road transport increased at a rate above the average, primarily due to goods transport. The growth of air transport services was marked in the trade with the United Kingdom, and that of road transport in the trade with Germany and Austria.

Balance of payments, external debt stock*

Improving balance of payments, decreasing external debt stock

According to preliminary data the **current account** had a surplus of EUR 1.4 billion at the end of 2011, which is equivalent with 1.4% of gross domestic product. The balance of the current account, reflecting the savings position of the country towards the rest of the world, improved in 2011 too, the improvement amounting to EUR 245 million. Between 2005 and 2008 considerable and increasing amounts of deficits – of between EUR 6.6 billion and EUR 7.8 billion – had been accumulated. A substantial change occurred in this trend in 2009: parallel to a significant decrease of revenues and expenditures because of the economic crisis the deficit was down to EUR 139 million. The current account had a surplus – for the first time in the last one and a half decades – at the end of 2010, which grew further in the subsequent year.

The balance of goods and services showed a surplus of some EUR 7.3 billion in 2011, EUR 1.1

*Source: National Bank of Hungary.

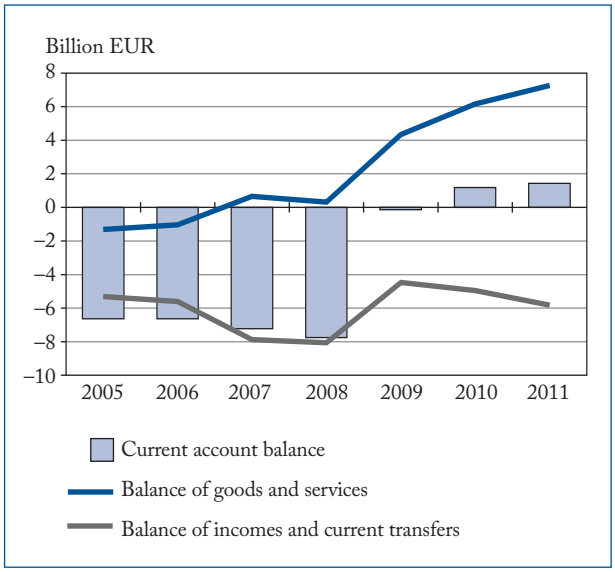
billion more than in the previous year. The balance has had a surplus in 2007 for the first time, the size of which – except the year 2008 – has increased since then. The predominant part, over five-sixths of monetary flows related to transactions in goods and services are represented by the balance of goods, which had a surplus of EUR 4.0 billion at the end of 2011. This sub-balance has had a surplus since 2009, and the improvement, lasting for several years, was EUR 822 million in 2011. The balance of services – following improvements in the years 2008–2010 – became more favourable in 2011, too, the surplus amounting to EUR 3.2 billion, EUR 292 million more than in the previous year. Out of the items thereof the surplus of travel, conventionally described as having the largest surplus, was EUR 2.2 billion in 2011, which is of a size comparable to that in the previous year.

The balance of incomes and transfers deteriorated in 2011, too, however, the size of the deficit was even so substantially lower than what was recorded in 2007–2008. The expenditures and revenues generated as the countervalue of using factors of production are accounted on the 'incomes' line. In case of incomes the net outflow came to EUR 6.3 billion in 2011, EUR 951 million and EUR 1.4 billion more than in 2010 and two years earlier, respectively. Among incomes related to investments, incomes on direct capital investments show a net income outflow of EUR 4.7 billion, which is EUR 471 million higher than one year earlier. Income flows related to portfolio investments also changed unfavourably, since the expenditure surplus of EUR 1.1 billion was EUR 261 million more than in 2010. The compensation of employees resulted in a surplus of EUR 763 million, EUR 43 million less than in 2010, when the highest surplus was registered in the past five years.

Current transfers are transfers in case of which no compensation is made for the transfer of a particular economic value making part of the current account. (Examples include food aid and free consultancy; the other group of transfers is represented by capital transfers, accounted for in the capital account.) In case of current transfers a revenue surplus of EUR 487 million was generated in 2011, which means that the balance improved by EUR 81 million compared to the previous year. The sub-balance had a continuously increasing deficit in the four years of the period between 2005 and 2008, compared with a revenue surplus in the past three years.

Figure 3.20

Current account and its components



The balance of the **capital account** showed a surplus of EUR 2.2 billion in 2011, which was EUR 397 million more favourable than one year earlier, and means at the same time the continuation of the improving trend that started in 2004. The revenues of EUR 2.2 billion of the capital account were almost exclusively represented by transfers from the European Union: 54% of them increased the resources of the general government, while the rest those of the other sectors. The **net external financing capacity** – calculated by 'top-down method' –, equal to the aggregate balance of the capital account and the current account, was EUR 3.6 billion in 2011. Since 2009 Hungary has had a financing capacity, while in the preceding years a significant financing need (of EUR 6–7 billion) had been generated. Financing capacity grew continuously in the last few years, and the change between 2010 and 2011 amounted to EUR 642 million. The **balance of EU transfers,** accounted for in the current account and the capital

account, showed a surplus of EUR 3.6 billion in 2011, which was EUR 211 million higher than one year before, and which indicates at the same time a revenue surplus unparallelled earlier on.

The **financial account** shows the change of financial assets that represented net external financing capacity. Within the financial account the balance of direct capital investments, representing a share of ownership of at least 10%, showed a net outflow of resources of EUR 118 million in 2011. Within this the investments of Hungarians abroad went up by EUR 3.1 billion, while the investments of foreigners in Hungary by EUR 3.0 billion. However, in investments where the share of ownership of foreigners did not reach 10%, i.e. portfolio investments, an inflow of EUR 6.6 billion of resources was recorded, which stemmed from the decrease of assets by EUR 1.6 billion and the growth of liabilities by EUR 5.0 billion. The balance of other investments[20] showed a net outflow of resources of EUR 3.5 billion in 2011. Within this long-term liabilities – with a maturity over one year – decreased by EUR 4.7 billion. (EUR 2 billion of that was represented by the loan repaid in the last quarter of the year to the European Commission.) In total the financial account had a surplus amounting to EUR 2.1 billion at the end of 2011, which was EUR 397 million higher than one year earlier.

At the end of 2011 the **net external liabilities** of Hungary came to EUR 95.2 billion, 12% less than one year before. The decrease of liabilities and the growth of assets both contributed to the decline of net external liabilities: the EUR 202.7 billion value of liabilities was 4.6% less than at the end of 2010, while the stock of assets of EUR 107.6 billion was 3.1% higher the one year before. (The growth rate of the asset stock has been declining for half a decade[21], while the stock of liabilities – following an increase in the previous years – has fallen in 2011 for the first time.) The largest part of the **stock of liabilities** was represented by direct capital investments, the stock value of which was down from EUR 90.3 billion to EUR 87.4 billion in 2011. This way the downward trend measured in 2010 continued, the rate of decrease accelerating by 1.4 percentage points. In case of portfolio investments, amounting to EUR 40.6 billion at the end of 2011, a similar trend was observed for the past two years to that in respect of direct capital investments. The decline in 2011 was predominantly due to the decrease of investments representing ownership rights. The stock of other external liabilities fell from EUR 75.2 billion to EUR 69.4 billion in 2011, the drop affecting both short- and long-term liabilities. Direct capital investments represent the largest item on the **assets** side, too, and their value coming to EUR 40.6 billion at the end of 2011 was 8.9% higher than one year before. Thus the net stock of direct capital investments (the difference between the investments of foreigners in Hungary and the investments of Hungarians abroad) amounted to EUR 46.8 billion, which has been the lowest value since 2005 considering the closing value at the end of each year. The stock of international reserves came to EUR 37.8 billion at the end of 2011, EUR 4.1 billion more than one year earlier. International reserves cover the foreign currency means – controlled by the bank of issue and vis-à-vis non-residents – that can be directly spent on payment in case problems of payment occur. At the end of 2011 over nine-tenths of international reserves were made up by foreign currency assets, which also include funds drawn but not used in the frame of an international loan package. (When drawing the first instalment of the loan agreement in November 2008, the stock of foreign currency assets increased by EUR 5.6 billion.) The stock of other foreign assets was down from EUR 21.2 billion to EUR 18.9 billion over a year, while a decrease of some EUR 3 billion was observed in the stock of assets concerning portfolio investments.

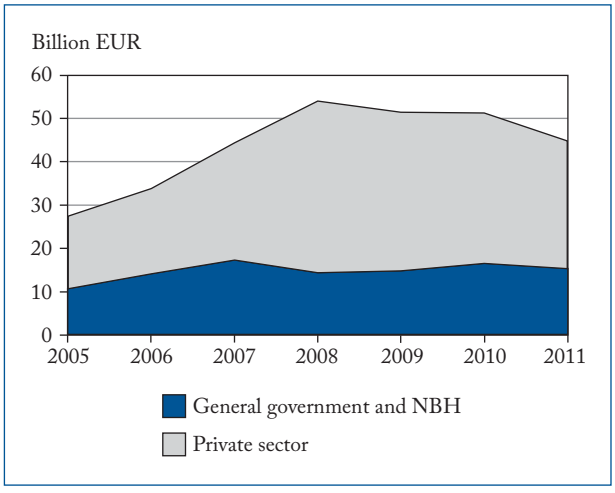
A substantial part of assets and liabilities are not considered as debt, for there are neither redemption obligations nor interest payment obligations on them. These items cover direct capital investments,

[20] Including e.g. commercial loans outside enterprise groups, inter-bank or syndicated loans, as well as currencies and deposits, which are not part of either direct capital investments or international reserve assets.
[21] Considering the values of the stock at the end of each year.

the part of portfolio investments representing ownership rights, and financial derivatives. If the difference between assets and liabilities is calculated so that the value of these stocks – i.e. non-debt generating sources of financing – is left out of consideration, then the result is the net external debt or loan stock of a country. **In the case of Hungary** the **net external debt** (not including other capital within direct capital investments) was EUR 44.7 billion at the end of 2011, which equalled 44.3% of GDP. The net external debt stock rose considerably between 2005 and 2008, the debt stock of EUR 27.3 billion at the end of 2005 amounted to EUR 53.8 billion three years later. The debt stock was lowered in the last three years: by 4.7% in 2009, by half a per cent in 2010 and by 12% in 2011. Although the amount of net external debt at the end of 2011 was 63% higher than at the end of 2005, it was 17% lower than at the end of 2008, when the highest value had been recorded. The **aggregate net external debt stock of the National Bank of Hungary and the general government** was EUR 15.2 billion at the end of 2011, 7.5% less than one year before. The liability stock embodied as the debt of the NBH and the general government – i.e. gross external debt stock – grew continuously between 2005 and 2011, from EUR 26.9 billion to EUR 54.2 billion in total. So the decrease of the net external debt stock for this group of residents in 2008 and 2011 is due to the value increment of assets exceeding that of liabilities. The net external debt stock at the end of 2011 was 44% higher than at the end of 2005, while the highest year-end value was measured in 2007 (EUR 17.2 billion).

Figure 3.21

Net external debt stock
(based on data at the end of the year)

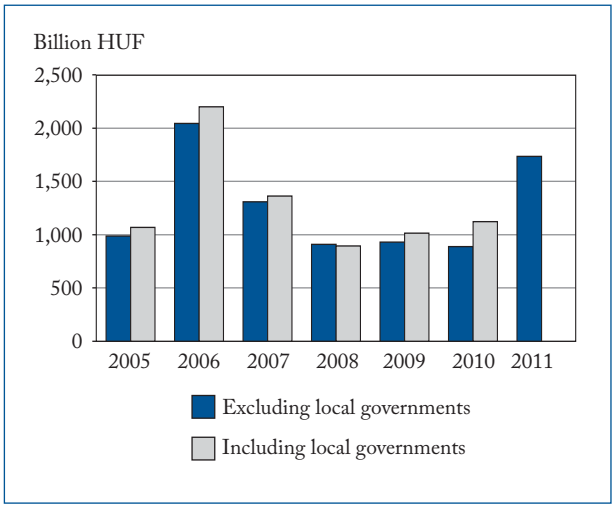


General government and its sub-systems*

The consolidated cash-based deficit of the **general government** (not including local governments) increased to HUF 2.0 trillion in 2006, more than the double of the value in the previous year, despite government measures taken in the second half of the year, aimed at improving the balance. The deficit was down to HUF 1.3 trillion and HUF 909 billion in 2007 and 2008, respectively, from this outstandingly high level. In 2009 and the subsequent year the balance did not change substantially, the surplus of expenditure was around HUF 900 billion. In 2011 a significant deterioration was recorded: the deficit exceeded HUF 1.7 trillion, which was approximately twice as high as in the previous year. Compared to 2011 a larger amount of deficit was generated only in 2006 earlier on.

Figure 3.22

General government deficit on cash basis



Source: Ministry for National Economy and State Debt Management Centre.

Central government balance deteriorated significantly in 2011

Among the sub-systems the **balance of the central government** showed a deficit of a similar size to the general government as a whole, HUF 1.7 trillion in 2011, HUF 864 billion more than in the previous year. The balance of the central government deteriorated considerably in 2006, and then improved year by year compared to this between 2007 and 2009. In the past two years the balance became less favourable. The expenditures and revenues of the sub-system amounted to HUF 10.0 trillion and HUF 8.3 trillion, respectively, in 2011. The value of expenditures grew by 8%, which has been the highest rate of increase since 2006, while a decline was observed in case of revenues (2%), which had been unparallelled earlier on.

Central government **revenues** from taxes on consumption were HUF 3.1 trillion in 2011, 2% lower than one year earlier. The revenues belonging to this category rose by a total of 24% between 2005 and 2011, the predominant part of the growth occurring between 2005 and 2008. Out of the tax categories here value added tax revenues came to HUF 2.2 trillion in 2011, 4% less than one year before. The decrease was due to the repayment – as a consequence of the decision of the European Court – of HUF 250 billion of VAT revenues during the year. HUF 875 billion of budget revenues were generated from excise tax, 2% more than in 2010. The revenues of central government institutions and chapter-administered estimates amounted to HUF 2.2 trillion, a 15% higher amount than in 2010. The total value of revenues here was 2.1 times as high last year as in 2005. An important factor of the growth was the rise of EU support for chapter-administered estimates, classified already under the revenues of professional chapter-administered estimates in 2011, which amounted to HUF 195 billion in 2005 compared with HUF 882 billion in 2011. The payments of households to the central government increased by some four-tenths between 2005 and 2008, and their amount reached HUF 2.2 trillion in this latter year. However, a decrease was registered in the past three years, the amount of which was the highest in 2011 (21% and HUF 398 billion). The decline in 2009 was the consequence of the falling block of wages and salaries because of the economic crisis, while the decrease in the past two years was owing to the reduction of the personal income tax burden. (In 2011 this latter was represented by the introduction of the flat-rate tax system imposing 16% on personal incomes and the extension of family tax allowances.) The value of the payments of households to the central government in 2011, approximating HUF one and a half trillion, was some two-thirds of what was recorded three years earlier, but was also 6% lower than in 2005. The payments of economic corporations in 2011 equalled revenues of HUF 1.2 trillion for the central government, 7% more than in 2010. Revenues from economic corporations showed an increase in all years between 2006 and 2011 except for 2009, when the economy fell considerably, so the amount of payments to the central government in 2011 (HUF 1.2 trillion) was more than four-tenths higher than six years before. In 2011 three-tenths of such revenues were accounted for by the revenues from special tax on financial corporations and by tax revenues burdening certain branches, such as retail shop activities, telecommunications activities and the entrepreneurial activity of energy suppliers.

The largest item of **expenditures** was the money use of government institutions and chapter-administered estimates, the value of which, amounting to HUF 4.7 trillion in 2011, was 12% higher than one year earlier. Compared to 2005, the item of expenditure rose by over four-tenths. The rise of expenditures of professional chapter-administered estimates was the more important factor of the growth for 2011 as well as the six-year-long period as a whole, which heading – similarly to the revenue side – also contains money flows in connection with estimates for EU funds. (In 2011 HUF 1.3 trillion was allocated from this latter to the beneficiaries.) However, the larger part of expenditures of government institutions and chapter-administered estimates was represented by the expenditures of government institutions even in

2011, which equalled HUF 2.5 trillion, a 6% higher amount than one year earlier. Even though within this the most was spent on personal allowances and the contributions on them, the growth mainly resulted from the capital increase of HUF 120 billion of the Hungarian Development Bank. Compared to 2005 the expenditures of government institutions rose by 23%, an essentially – 20 percentage points – lower rate than the growth rate of the total expenditures of the central government. In 2011 HUF 1.9 trillion was spent on supporting the sub-systems of the general government, 21% – HUF 502 billion – less than in the previous year. As a result of the substantial decrease the expenditures under this heading fell to the lowest level in the past four years. (In the years 2008–2010 the amount of these items of expenditure was around HUF 2.3–2.4 trillion.) The marked decrease was consistent above all with the 44% fall in the amount of guarantees and contributions provided to the expenditures of social security funds, which thus meant an expenditure of HUF 638 billion for the general government in 2011. This latter fall was largely linked to the transformation of the pension system – the establishment of the Pension Reform and Debt Reduction Fund, as a result of which the government support directed earlier to the Pension Insurance Fund was essentially abolished. The amount of support declined in 2011 in case of local governments, too, the other sub-system which is a substantial beneficiary of budget support: the item of expenditure of HUF 1.2 trillion was 5% lower than one year before. Interest expenditures were a burden of HUF 1.1 trillion for the central government, 3% less than in 2010. The value of interest expenditures in 2011 was one-fifth higher than in 2005. Seven-tenths of interest expenditures in 2011 were generated on HUF debts and three-tenths on foreign-exchange debts. Expenditures on public wealth also reached a significant amount – HUF 623 billion – in 2011, though the amount of expenditures under this heading was less than HUF 100 billion in former years. The dominant part of the considerable increase was caused by the purchase of a parcel of MOL shares for HUF 498 billion. By means of the acquisition 21.22% of MOL shares became the property of the Hungarian state, due to which the share of the state grew to 23.82%. The purchase was realized from the part of the loan package provided by the International Monetary Fund and the European Commission that had been undrawn until then. (At the end of 2011 the stock of foreign-exchange deposits and loans placed from the international loan package amounted to HUF 482 billion.) The expenditures of the general government were increased by HUF 250 billion of debt assumption and debt release in 2011. This was a substantial change compared to the years 2008–2010, during which period such expenditures came to less than HUF 3 billion in total. (In the preceding three years, however, some HUF 660 billion were reported, out of which HUF 420 billion burdened the year 2006 alone.) In 2011 the largest amounts of debts were assumed by the general government from county governments, the Municipality of Budapest and the Hungarian State Railways Private Limited Company (MÁV Zrt.), a total of HUF 196 billion from county governments and the Municipality of Budapest, and HUF 50 billion from the transport company.

Balance of social security funds slightly improved in 2011

Social security funds had a deficit of HUF 83 billion at the end of 2011, which means that the balance improved by HUF 12 billion over a year. The revenues of the sub-system approximated, while its expenditures exceeded HUF 4.5 trillion. Revenues and expenditures were up by 4% and 3%, respectively, compared to the previous year, and their growth rate was the same as in 2010. (Previously, revenues and expenditures both decreased in 2009.) 68% of the money flows in 2011 were realized through the Pension Insurance Fund, which was in balance. The deficit of HUF 83 billion generated in case of the Health Insurance Fund resulted from the HUF 8 billion improvement of the balance.

HUF 3.4 trillion, the dominant part, some three-quarters of the **revenues of the sub-system** were accounted for by revenues from charges and contributions, the value of which was 11% higher than in 2010. The growth followed a decrease in the years 2009–2010, when the value of such social security revenues sank from HUF 3.3 trillion to HUF 3.0

trillion. The reason for a substantial part of the increase in 2011 was that charges were already paid all through the reference year, as opposed to the first ten months of 2010, when the missing charge revenues from the members of private pension funds had been paid by the central government. In contrast, the amount of support and contributions from the central government, equal to HUF 643 billion in 2011, was HUF 509 billion less than one year earlier. The fall followed a rise in the years 2009–2010, when the amount of support grew from HUF 831 billion to HUF 1.2 trillion. One of the factors of the sharp decrease in 2011 was represented by the abovementioned reorganisation of the pension system, but it also played an important role in the decline that resources of HUF 363 billion were made available to the Pension Insurance Fund from the Pension Reform and Debt Reduction Fund – and not as government support. (So central government contributions to the sub-system were used to finance the Health Insurance Fund.)

Two-thirds of the **expenditures of the social security sub-system** were accounted for by pensions and allowances, the HUF 3.0 trillion amount of which was 5% higher than in 2010. The amount spent on pensions and allowances increased by 10–11% a year in 2006–2008. In 2009 a decrease of 2% was recorded, which was dominantly determined by the change of rules concerning the 'thirteenth'-month pension. In 2010 the rise was as high as the decrease in the previous year, so the item of expenditure amounted to HUF 2.9 trillion that year, similarly to 2008. The amount of transfers in kind came to HUF 1.1–1.2 trillion a year between 2005 and 2011. The amount for that purpose was 3% higher in 2011 than one year before, of which HUF 807 billion were spent on curative and preventive health care and HUF 377 billion on the subsidisation of medicaments. (Both values were higher than in 2010.) The amount of transfers in cash from the Health Insurance Fund rose from HUF 194 billion to HUF 247 billion between 2005 and 2009. As a consequence of cuts of around 10% a year in the last two years they amounted to HUF 201 billion in 2011. Among the items thereof the value of expenditures on sick-pay dropped from HUF 108 billion to HUF 66 billion between 2009 and 2011, which was substantially influenced by stricter rules of payment.

In 2011 gross debt of central government grew by 5%

The **gross debt of the central government** was HUF 21.0 trillion at the end of 2011, 5% (HUF 915 billion) more than at the end of 2010. The growth occurred in spite of the transfer of wealth during the year – of those returning from the private pension fund system to the social security system – to the Pension Reform and Debt Reduction Fund, after which government securities worth HUF 1.4 trillion were withdrawn from circulation. At the same time the value of the debt stock in HUF was increased by the unfavourable movements of the exchange rate, as a result of which the exchange rate of the HUF against the EUR was 12% weaker at the end of 2011 than one year earlier.

At the end of 2005 the debt stock was HUF 12.8 trillion, and the rate of growth reached 64% over six years. The increase mostly affected the foreign currency debt, the stock of which rose from HUF 3.6 trillion at the end of 2005 to HUF 10.2 trillion by the end of 2011. As an impact of a marked, essentially higher rate of rise than that of the HUF debt the proportion of the foreign currency debt also went up over the years: indebtedness in non-domestic means of payment had only been 28% back at the end of 2005, while it was some 50% – calculated from the stock not including other liabilities[22] – at the end of 2011. (The cost of financing of the foreign currency debt is essentially lower than that of the HUF debt, since – despite their identical share of the debt – only three-tenths of interest expenditures incurred related to the foreign currency debt, but seven-tenths of those related to the HUF debt.)

Within the foreign currency debt the stock of government securities (foreign currency bonds issued abroad) was HUF 5.7 trillion at the end of 2011, one-quarter more than one year before and twice as high as the value at the end of 2005. The stock of loans amounted to HUF 4.4 trillion at the end of 2011, a 4% higher amount than at the end of 2010, and more than six times as high as six years

[22] On 31st December 2011 the stock of other liabilities was HUF 423 billion, and its share of the total debt stock came to 2.0%.

earlier. A significant part of foreign currency loans is accounted for by the international loan package which we first applied for in 2008. In the frame of this type of debt the State Debt Management Centre registered foreign currency loan stocks of HUF 2.2 trillion from the International Monetary Fund and HUF 1.1 trillion from the European Union at the end of 2011. (In addition, although the value of similar liabilities to three other international financial organisations was HUF 975 billion at the end of 2011, this debt does not make part of the international loan package.) The dominant part of the HUF debt was made up of government securities, the stock of which at the end of 2011, amounting to HUF 9.8 trillion, was 6% less than one year earlier.

In total, considering HUF and foreign currency debts together, government securities – even in spite of large amounts of foreign currency borrowings – play an essentially more important role in financing the debt than loans do: their ratio was practically 3:1 at the end of 2011 (75.4% and 24.6%, respectively).

In 2011, as an effect of transfer of wealth of private pension funds, Maastricht criterion on general government debt was met

According to data reported to the European Union **under the excessive deficit procedure (EDP)**, the surplus of the general government was HUF 1,205 billion in 2011, which is equal to a surplus of 4.3% of GDP. The value of wealth transferred from private pension funds and other related revenues amounted to HUF 2,722 billion in 2011. Without this item of revenue the general government had a deficit of HUF 1,517 billion, which is equivalent with 5.4% of GDP. According to data calculated for the excessive deficit procedure the deficit of the general government had represented 3.7–4.6% of gross domestic product between 2008 and 2010, and the most favourable proportion was recorded for 2008. Without revenues from private pension funds the general government deficit increased by HUF 392 billion or by 1.2 percentage points as a proportion of GDP compared to 2010.

At the end of 2011 the debt of the government sector was 80.6% of GDP, which was 0.8 percentage point lower than one year earlier and by the same extent higher than two years earlier. The debt was considerably – 8 percentage points – higher compared to what was generated by the end of 2008.

Looking at the **European Union** as a whole the general government deficit represented 4.5% of GDP in 2011, a 2.0 percentage point lower rate than in the preceding year. The decrease of the deficit mainly resulted from the one-and-a-half-percentage-point fall of expenditures as a proportion of GDP, but the rise of revenues also contributed slightly – by half a percentage point – to the improvement of the balance. The debt stock represented 82.5% of GDP at the end of the year, significantly exceeding the threshold value of 60%. The debt grew in 2011, too, the rate of increase (2.5 percentage points), however, decreased further, similarly to the preceding year. (The debt stock rose by 12 percentage points in 2009 and by 5 percentage points in 2010.)

Out of the member states of the European Union, the 3% requirement on the rate of general government deficit was not met in 17 member states in 2011, 5 fewer than one year before. Among the large member states Germany had the most balanced general government, where the deficit was only 1%. The deficit was 3.9% in Italy, 5.2% in France and 8.3% in the United Kingdom, but it was lower in each large member state than one year earlier. In case of some member states in the euro area the general government deficit was several times higher even in 2011 than the threshold value (Ireland, Greece, Spain), but the deficit decreased in their case as well.

The criterion on the level of government debt was met in 13 member states in 2011, while in 14 it was not. Out of the member states the lowest level of government debt was registered in Estonia (6%), while the highest in Greece (165%). In addition to Greece the amount of debt exceeded that of the gross domestic product – in a descending order – in Italy, Ireland and Portugal. Among the large member states Germany is in the most favourable position in respect of this criterion, too, for its debt was equivalent to 81% of its GDP, while the corresponding figures were 86% in France and the United Kingdom and

4. Performance of branches

Domestic environment for enterprises

• In 2011 agriculture and external trade were the most important driving forces of Hungary's economy. The performance of branches producing first of all for external markets rose, while that of branches relying on domestic demand typically decreased. Out of the export-oriented divisions of industry the manufacture of basic pharmaceutical products and pharmaceutical preparations and the manufacture of transport equipment started to grow rapidly. In harmony with low internal consumption, however, the value added by the services sector declined, within which the highest fall was registered in the area of financial and insurance activities. The growth of agriculture was owing to the especially high rate of increase of the value added by crop production.

• At the end of 2011 the number of **registered enterprises** was 1 million 790 thousand, almost two-thirds of which were represented by sole proprietors. 99.9% of enterprises in Hungary are small- and medium-sized enterprises, and the proportion of large enterprises, employing at least 250 persons, is only 0.1%. Nevertheless, almost three-tenths of employed people work at large enterprises, which in total produce nearly the half of total value added.

Research and development

• The expenditures of **research and development** – which in Hungary are recorded mostly in industry – represented slightly less than 1.2% of GDP in 2010, and their level was higher than in the previous year. Enterprises have an increasingly important role in financing R&D activities – in compliance with the Lisbon Strategy – in Hungary too, but that proportion is lower at the moment than the EU-average. In addition to the growth in the number of research and development units the concentration of human resources was also observed in the sector in the last few years.

Agriculture

• 2011 proved to be remarkably prosperous for **agriculture:** it contributed to the production of GDP by 4.6%, which has been the highest share since the turn of the millennium. Because of the decline of livestock, lasting for for years, crop production remained the branch considered as a driving engine, its proportion is especially high in EU comparison as well.

Industry

• In **industrial production** in Hungary besides sectoral concentration there is regional concentration, too. Although the crisis continued to have its impact on the sector, the output increased by 5.4% in 2011. The driving force of industry was represented by export sales in 2011 as well, which – in spite of decelerating sales on external markets during the year – rose by 7.6%, while domestic sales were 5.1% lower than in 2010. Among the export-oriented subsections of industry the manufacture of basic pharmaceutical products and pharmaceutical preparations and machinery branches started to grow rapidly. A very substantial surplus is generated related to external trade in transport equipment – the dominant part of which is transacted with Germany – year by year, which may be enhanced by large investments made in the manufacture of transport equipment in the recent past.

Construction

• The decline of the **output of construction** in Hungary, lasting since 2006, continued in 2011, too: the volume of output was 7.8% lower than in the previous year. The demand of businesses and households remained at a low, this section of industry continued to be supplied with work predominantly by state orders.

Transport, traffic

• In parallel with the expansion of international **transport**, goods transport performance – primarily as a result of longer transport distances – also increased slightly in 2011. However, the slight growth in the past two years could not offset the former decline of performance in any mode of transport. The increase of the performance of inter-urban passenger transport was also due to the expansion of international transport, while urban passenger transport remained at the level of the previous year.

Telecommunications, internet

• As a result of innovations in **information technology** the use of mobile internet is more and more widespread in Hungary, too: data traffic expanded dynamically, by some one-third over a year. Mobile internet subscriptions account for the half of the total – more than 4.3 million subscriptions. It was first of all due to the spread of this mode of connection that the number of internet subscriptions reached a growth of nearly 30%, though household access to the internet is still considered low in comparison with the EU.

Retail trade

• In line with the trend of household consumption, **retail trade turnover** in 2011 also remained at a level near that in the previous year. Sales over the year were slightly higher in the majority of the months than in the corresponding period of 2010. In respect of the structure of turnover the proportion of food and motor vehicle fuels increased continuously – primarily as a consequence of price rises – in the last few years.

Tourism, catering

• The change of **tourism and catering** is influenced by both domestic and international economic trends. International tourism at public accommodation establishments grew in 2011, while a slight decrease was observed in the travel propensity of domestic tourists. As an aggregate effect of these, the number of tourism nights registered by public accommodation establishments diminished by 0.6%. The decline of the travel propensity of domestic tourists is partly owing to growing fuel prices, since seven-tenths of overnight visitors use a passenger car or a motorcycle for their trips. Domestic catering turnover – principally because of low demand and the transformation of the non-wage benefit system – went on decreasing as well.

Summary data

Denomination	2009	2010	2011
R&D expenditures as a percentage of GDP	1.17	1.16	..
Volume index of agricultural output, previous year=100.0[a)]	88.4	88.5	110.9
Volume index of industrial production, previous year=100.0	82.2	110.6	105.4
Industrial producer price index, previous year=100.0	104.9	104.5	104.2
Share of exports in industrial sales, %	49.3	53.0	55.1
Volume index of construction output, previous year=100.0	96.7	88.9	92.2
Transport performance index, previous year=100.0			
goods transport by road[b)]	99.0	95.3	102.3
inter-urban passenger transport[c)]	95.7	101.1	102.8
Number of mobile phone subscriptions per hundred inhabitants	117.8	120.3	117.3
Number of internet subscribers per hundred inhabitants	28.0	33.5	43.4
Volume index of retail trade turnover, previous year=100.0	94.7	97.9	100.2
Number of foreign visitor arrivals in Hungary, thousands	40,624	39,904	41,304
Number of tourism nights, thousands	56,364	55,814	57,592

[a)] At prices of preceding years. [b)] Based on freight tonne-kilometres. [c)] Based on passenger kilometres.

Domestic environment for enterprises

The economic situation of a country is largely determined by the change of activities of business units. In parallel with the changes of the legal environment, the emergence of new organisational forms and the inflow of foreign capital, the corporate structure of the Hungarian economy was considerably restructured in the past few years. The number of business units has been on the rise for years in Hungary. The increase, which can be considered as even, was followed by a fast and large rise in the number of organisations in 2007, which was caused by the obligation for primary producers to obtain a tax number.

Number of registered business units went on rising

At the end of 2011 the number of **registered business units** was 1 million 790 thousand, 2.7% more than one year before. The rise in the number of registered enterprises resulted from the 5.3% and 1.4% growths in the number of business partnerships and sole proprietors, respectively. As a consequence of a new classification of legal forms from 1st January 2011, some enterprises were reclassified to non-profit organisations or other organisations. Within this the most significant change was the reclassification of condominiums (some 35 thousand items), which led to the number of non-profit organisations rising nearly one-and-a-half times higher. Households which employed – as employers – employees doing housework were reclassified to the group of other organisations. This affected more than 1,200 sole proprietors.

The choice from the different **legal forms** is influenced by several factors, and the relevant legal background is being altered continuously. Basic aspects are the simplicity of foundation, the amount of capital paid at foundation and the degree of responsibility. The number of business partnerships was 594 thousand at the end of 2011, 30 thousand more than in the preceding year. The highest increase continued to be recorded in case of limited liability companies, accounting for two-thirds of business partnerships: their number grew by 11% during one year, within which it rose by leaps and bounds in the last month of the year. The soaring number of registrations at the end of the year resulted from the higher registration duty, raised from 1st March 2012, and stricter regulations on company foundations. Besides limited liability companies the number of joint stock companies also rose considerably: it was 6.1% higher at the end of the year than in the previous year. The substantial expansion of these two legal forms, lasting for years, is due to the changes of regulations, in effect from 2007: the capital required for their establishment was reduced considerably. In parallel, the number of limited and unlimited partnerships gradually decreased. The number of sole proprietors was 1 million 57 thousand at the end of 2011, 1.4% more than in 2010. Within this the number of those with main and secondary occupation rose, while the number of pensioners – accounting for one-quarter of sole proprietors – lessened compared to the preceding year.

Concerning the regional distribution of enterprises a significant change was observed in the past few years, which was strengthened by the introduction of the obligation for primary producers to obtain a tax number. Business partnerships were typically concentrated in Central Hungary, while the distribution of sole proprietors was much more even.

The change of the **economic structure** and the distribution of enterprises by principal activity were both influenced by the changes of regulations in the last few years. More than a quarter of enterprises were in agriculture, a considerable part of which were represented by sole proprietors, their number having steeply increased in parallel to the introduction of the obligation for primary producers to obtain a tax number. Additional significant branches were real estate activities (13%), wholesale and retail trade (12.6%) and professional and scientific activities (10.4%).

An enterprise can be ceased in several ways, the total number of **cessations** rose by 7.7% in 2011 after a decrease in 2010. This mainly stemmed from the large number of cessations of sole proprietorships listed in enterprise registrations. To close business partnerships dissolution was chosen the most often, the number of which grew considerably in 2011. The rise of almost 80% was caused by the cessation of several enterprises engaged in financial and

insurance activities, which was closely related to the distrust of households in financial institutes and the depreciation of the exchange rate of the forint.

Only one in a thousand Hungarian enterprises is a large enterprise

Micro-, small- and medium-sized enterprises play an especially important role in the Hungarian economy. Looking at enterprise structure the proportion of micro-enterprises is very high in most member states of the EU, including Hungary (97.8%). All in all the majority, 99.9% of enterprises are small- and medium-sized enterprises in Hungary, while the proportion of large enterprises, employing at least 250 persons, is only 0.1% according to data estimated for 2010[1]. Nonetheless, almost three-tenths of employed persons work at large enterprises, where nearly the half of the total value added is produced. Enterprise density shows significant regional disparities in Hungary, but on the whole is higher than the EU average.

Research and development

The expenditures of research and development amounted to a total HUF 310.2 billion in 2010, and were 3.7% higher at current prices than in the previous year. This amount represents slightly less than 1.2% of GDP, is below the EU average (2%), but is considered relatively high among newly acceded countries.

Role of enterprises goes on strengthening in financing R&D activities

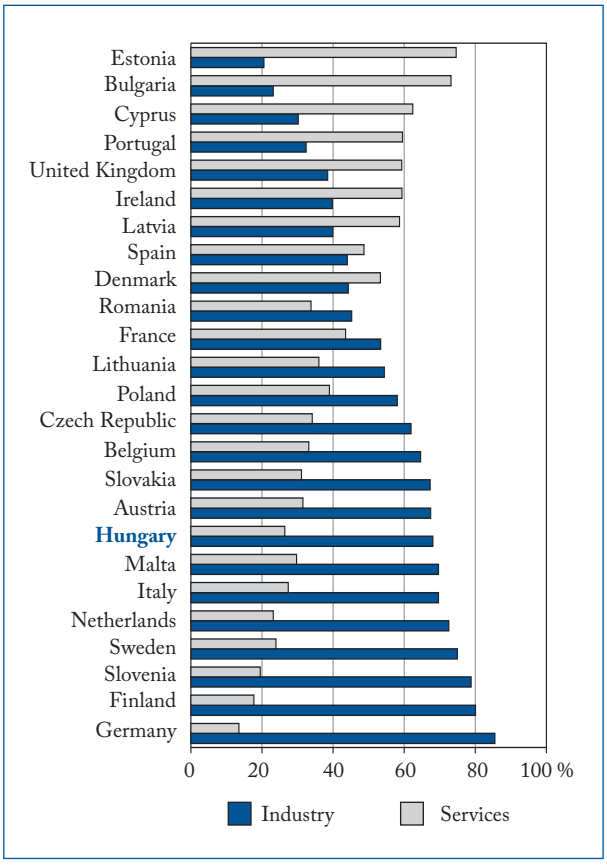
Among the sources of national expenditures on research and development the proportion financed by enterprises grew in 2010 again, equalling 47%. The strengthening role of enterprises in financing R&D activities coincides with the aims of the Lisbon Strategy. The share of **R&D expenditures** financed by enterprises was 54% on average in the EU in 2009 (the highest, around 70% in Luxembourg, Finland and Germany).

Industry and services are the dominant sectors in the research and development activities of the enterprise sector. Hungary is one of the member states where the bulk of R&D expenditures are accounted in industry.

In the last few years the number of **research and development units** grew further, by a total 19% between 2005 and 2010 and at a considerably higher rate, by 85% within the enterprise sector. So the number of research and development units of enterprises was 1,384 in total in 2010, which accounts for nearly the half of all the organisational units performing R&D activities (54% is represented by higher education institutions and research institutes financed by the government).

Figure 4.1

Share of industry and services of corporate R&D expenditures, 2009



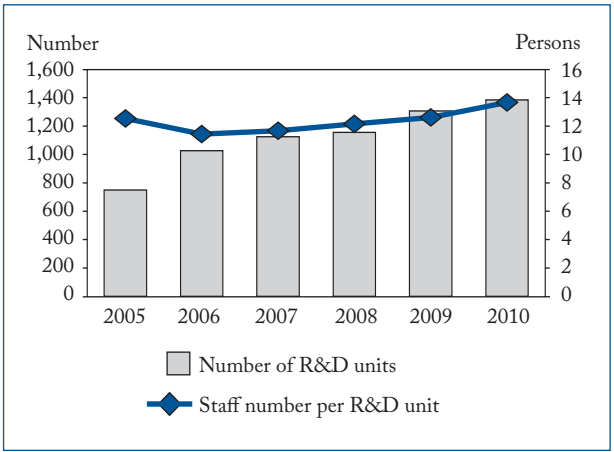
In the last three or four years the concentration of human resources was observed: the growth in the

[1] *Source*: European Commission, Enterprise and Industry portal: SBA Fact Sheet – Hungary, 2010/2011.

number of research units was lower than the increase in the number of staff – including researchers – working there. As a result, **staff per R&D unit** and the number of researchers per R&D unit increased. This is shown both by actual and calculated[2] staff numbers. All in all, 19 thousand persons and within that more than 12 thousand researchers worked (actual staff number) in the enterprise sector of R&D.

Figure 4.2

Number of R&D units of enterprises and actual staff number per R&D unit



In total R&D sector **indicators on the qualifications** of people working in the area of research and development slightly improved compared to 2005. There was no substantial change definitely among researchers (what is more, the share of those with a doctoral degree even decreased somewhat), but improvement was measured in the total staff number and among women within that. 76% of employed persons had a higher education degree, and 24% had a scientific degree, too, in 2010. The human resources management at enterprises also performing R&D activities was more 'economical', the proportion of people with higher education degree was 70% and of those with a doctoral degree in addition only 7%, but the proportion of those having a higher education degree rose by 2 percentage points among them as well over the examined 6 years.

In the field of research and development there are conventionally large differences among the regions, the dominance of the capital is clear. However, regarding the R&D units of enterprises, this regional disparity decreased from the middle of the past decade, and it was especially the role of Western Transdanubia and Southern Great Plain that became stronger.

Two-thirds of current R&D expenditures of enterprises were spent on experimental development

The three categories of R&D activities are basic research, applied research and **experimental development**. In the opinion of the general public, experimental development is conventionally related to enterprises, while basic research to research institutes and the R&D units of higher education. However, current expenditures on experimental development – to the detriment of either basic research or applied research – represented an increasing proportion in the total R&D sector. Nevertheless, applied research was enhanced in the middle, while basic research, having a very low share, at the end of the last decade in case of enterprises.

Table 4.1

Use of current R&D expenditures at R&D units of enterprises

Year	Total current expenditures, billion HUF	Distribution, %		
		basic research	applied research	experimental development
2005	69.5	2.8	25.2	72.0
2006	84.7	1.3	30.0	68.7
2007	104.7	2.1	32.9	65.0
2008	118.1	2.4	32.4	65.2
2009	144.0	4.8	32.3	62.9
2010	162.7	3.8	29.6	66.6

The efficiency and effectiveness of the research and development activities of enterprises' R&D units is mostly measured by the increase of the turnover or profits of enterprises, while this sector is less active in the area of scientific publications. It is mainly the results achieved in basic research and applied research that are issued in scientific publications, while enterprises continue to be interested first of all in experimental development, which can be converted into revenue increment in business life. The number of publications – concerning either Hungarian- or foreign-language ones – is several times higher in case of research institutes and also in higher

[2] The calculated staff number is the full-time equivalent of the actual staff number.

education than in case of for-profit organisations. In the enterprise sector the number of Hungarian- and foreign-language articles per hundred researchers was 5.7 and 4, respectively, in 2010. This is not the case in the field of patent activities, however. Enterprises are considerably more active in respect of both domestic and foreign applications than the other two sectors.

Agriculture

Outstanding results in agriculture in 2011

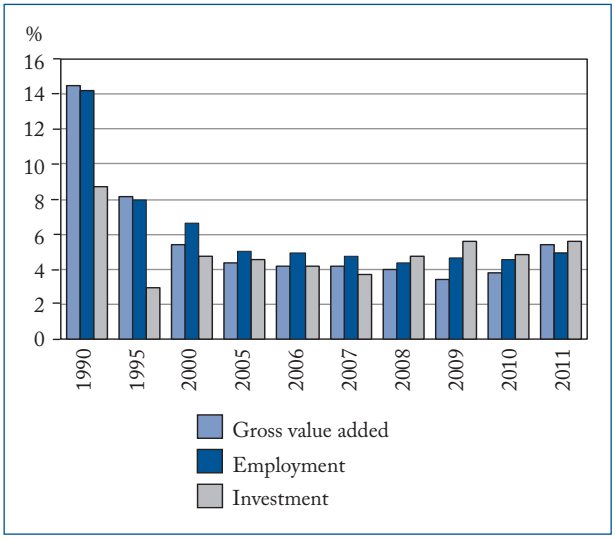
According to data of the system of national accounts agriculture contributed to the production of gross domestic product (GDP) by 4.6% in 2011, a share some 1.4 percentage points higher than in the previous year. The branch had been unable to achieve such a high share since the turn of the millennium, and its share also grew in employment (4.9%) and investments (5.6%). These proportions are also especially high, for the role of agriculture in the national economy has decreased almost continuously – since the change of regime, and the turn of the millennium considering a narrower period – in employment and in the production of the gross value added by the national economy. Even though the volume of gross value added by the branch fell in 2010 compared to the previous year, its role in the national economy already grew slightly as an impact of the considerable price rise of crops and horticultural products.

The **number of persons employed in agriculture** went on decreasing in 2010 after a transitional increase in 2009 (when because of the crisis agricultural activity was a primary source of income for a part of unemployed people). According to data of the labour force survey of households 185.1 thousand persons worked in agriculture, forestry and fishing in 2011, 7.7% more than in the previous year, but nearly one-third less than the employment at the turn of the millennium.

The **gross value added by agriculture** rose significantly in 2011, by 32% at the prices of the previous year and by 59% at current prices according to figures of the economic accounts for agriculture. The net entrepreneurial income calculated from agricultural activity was remarkably, 89% more than one year before.

Figure 4.3

Share of agriculture of national economy



Stagnating labour input, significant real income growth

According to the **annual work unit (AWU)**, the indicator elaborated to measure the labour input in agriculture, performing agricultural activities absorbed as much time in 2011 as if 437 thousand people had worked full-time all over the year, nearly the same number as in the previous year, and some 35% less than in 2000. Taking into account the recommendation of the EU, salaried and non-salaried labour can be distinguished. The value of the quantity of work accounted as salaried labour input corresponds to what is accounted in the 'compensation of employees' line in the economic accounts for agriculture, while non-salaried labour means agricultural work performed by household members in private holdings. Non-salaried labour accounted for a substantial share, some three-quarters of total labour input in 2011. The considerable drop (of some 40% since 2000) in the number of private holdings was also reflected in the falling number of people performing agricultural activities.

To compare the profitability of the different countries the EU measures the efficiency of labour input in agriculture with the index of real income of the factors of production per annual work unit (indicator 'A'). According to preliminary data of the

EU, the value of indicator 'A' rose by an average of 6.9% in the member states as a whole, while in Hungary it was up at a considerably higher rate than the EU average, by nearly 50% in 2011.

Crop production remains the driving force

According to preliminary data of the economic accounts for agriculture, the volume of **agricultural output** was 10% higher, while its value at current prices 29% more in 2011 than in the previous year, which latter has been the highest rate of increase since 2000. The performance of the branch – depending primarily on the yields of crops on arable land – fluctuates strongly. Extreme weather conditions – drought in 2002, 2003 and 2007, frost damage, or extraordinary quantity of precipitation in 2010 – lowered performance, while especially high yields were observed in the years of abundant cereal production (growths of 24%, 28% and 29% in 2004, 2008 and 2011, respectively). The volume of the output of crop products rose by 17% in 2011 after a diminishment in the preceding two years. The volume of production of industrial crops and horticultural products increased at a higher rate than the average (by 23% and 33%, respectively) compared in both cases to an extremely low base in the previous year. The output of cereals, with the largest weight within crop products, grew by 13% over one year. Because of the fall of livestock the volume of production of live animals and animal products had not reached the level of the previous year since 2004, but went up slightly, by 1.5% in 2011. The volume of production of live animals, representing the larger proportion within this, increased by 2%, while that of animal products did not change considerably.

Cereal harvest increased in Hungary and stagnated in EU

Agricultural production is carried out on more than the half, 57% of the area of Hungary, which is especially high in the EU, while the 46% share of arable land area is the second highest in the EU, following Denmark. Crop production has an excess weight in the structure of production because of the decrease of livestock lasting for years: its share was 62% in 2011, based on output.

After the extraordinarily wet weather in 2010, damaged or unsown arable land area decreased by some 30% last year. On 67% of the **utilised arable land area** (of 4.3 million hectares) cereals were sown. Within this the proportion of the sown area of wheat (25%) slightly decreased, while that of maize rose from 28% in the previous year to 31%. Out of industrial crops the share of oilseeds gradually increased in the last few years, while the sown area of sugar beet has had a share of below 1% of total sown area since 2007, on account of an EU quota regulating production.

Table 4.2

Production of major crops

Crop	2009	2010	2011	Position of Hungary in EU rankings[a]
	thousand tonnes			
Wheat	4,419	3,745	4,130	11
Maize	7,528	6,985	8,089	4
Barley	1,064	944	989	18
Sugar beet	737	819	771	15
Sunflower	1,256	970	1,368	4
Rape and turnip rape	579	531	527	9
Potato	561	488	564	16
Vegetable	1,614	1,144	1,600	12
Fruit	884	766	542	9
Grape	550	295	482	8

[a] According to data of 2010.

13.8 million tonnes of cereals were harvested in 2011, 12% (1.5 million tonnes) more than in the previous year. Within this the production of 8.1 million tonnes of maize was an improvement after weaker yields in the preceding two years. 10% more wheat was harvested than in the previous year, while out of oilseeds it was the production of sunflower that increased significantly.

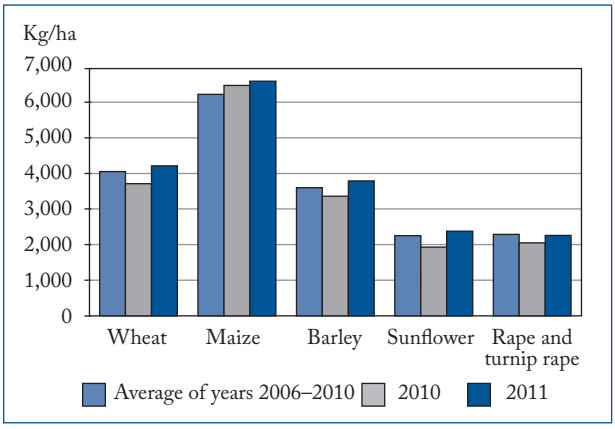
According to preliminary data, 281 million tonnes of cereals were produced in the member states of the EU, nearly the same quantity as in the previous year, of which the share of Hungary was 5%.

Production decreased in Germany, the United Kingdom, Italy and Poland, while it grew in Spain and Romania, each with a significant weight regarding the **production of cereals**. Hungary accounted for nearly 15% of maize and nearly one-fifth of sunflower production in the EU, while its share of wheat, barley as well as rape and turnip rape production was only a few per cent.

As a consequence of extreme weather in the last few years, substantial fluctuations were observed in production. Years of drought were followed by wet weather in 2010, while 2011 brought extraordinary drought again. Nonetheless, the yields of cereals, sunflower as well as rape and turnip rape were all favourable.

Figure 4.4

Yields



The **intensity of production of major crops** (their production per hundred hectares of arable land area) differs significantly by regions. In 2011 the largest quantities of wheat were produced in Western Transdanubia, where it was produced on 26% of the arable land area, while the lowest value was recorded in Northern Great Plain. Concerning maize the substantial difference between Southern Transdanubia and Northern Hungary was due to its respective shares of 46% and 14% in the pattern of sowing in these regions. The higher intensity of sunflower in Northern Hungary and of rape and turnip rape in Western Transdanubia also resulted from the pattern of sowing, depending on climatic conditions.

More cattle, pig numbers at low level, poultry stock decreases

Based on the data of the survey conducted on 1st December 2011, the **livestock** of cattle slightly grew, while that of pigs and sheep continued to decrease. As for poultry, holdings kept a larger stock only in case of domestic fowl than one year earlier.

The number of cattle declined considerably in the last two decades, and it has been below 700 thousand since 2009. Over one year their number did not change substantially in case of business units, holding two-thirds of the stock, while it grew by 15 thousand in private holdings. In 2011 there were 467 and 12 cattle per holding in case of business units and private holdings, respectively.

Following the trend in the last few years the pig stock went on decreasing, thus it was 137 thousand lower than one year earlier and already hardly surpassed 3 million. Pig farming in households, in majority back at the beginning of the 1990s, has been losing ground year by year because of high fodder prices. In the past 10 years the stock decreased significantly in private holdings, and it went below 1 million in 2009. In 2011, however, their number grew slightly, by 27 thousand. 71% of the pig stock was held by business units, their stock was down by 164 thousand during the last year. The funds of some HUF 272.5 billion to be allocated between 2007 and 2013 in the frame of the 'New Hungary Rural Development Programme' for the modernisation of premises for animal keeping[3] can be a breakthrough to make pig industry profitable.

[3] *Source*: Press office of the Ministry of Rural Development: A VM valódi döntéseket hoz a sertéstartók érdekében (MRD makes real decisions in the interest of pig keepers). 30th March 2011.

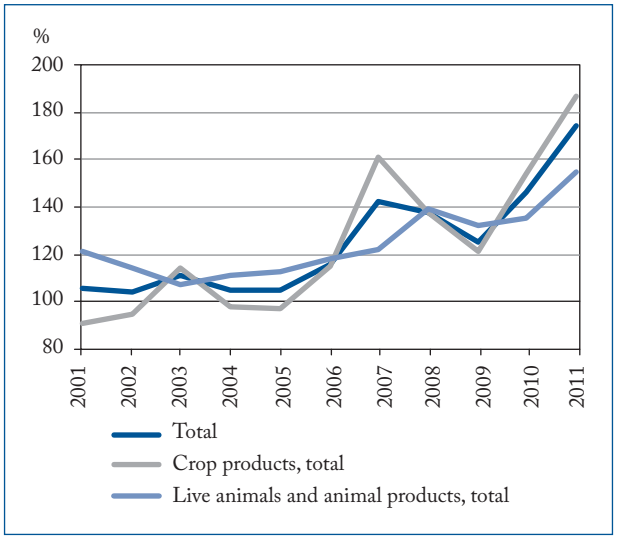
Livestock per hundred hectares of arable land increased for poultry, while it did not change considerably in case of cattle and pigs in 2011. As for the intensity of animal keeping, the most cattle were held in Central Hungary (21), the highest intensity level of pigs was measured in Northern Great Plain (92), while one and a half times more poultry were held per arable land in Central Transdanubia than the national average of nearly 1,000 heads.

Price level rise of agricultural products remains significant

After an increase of 17% in 2010 the **producer price level of agricultural products** grew by 19% in 2011, but it failed to reach the growth of 22% in 2007, the highest in the last decade. Considering a longer period – despite annual fluctuations – the price level increases. The strong fluctuation in the price level of crops and horticultural products was caused mainly by the price movement of cereals as well as grape and fruits. In 2010 producer prices grew substantially as an impact of high demand for cereals on the global market as well as weak domestic yields, while high demand on domestic and external markets and the depreciation of the forint kept them at a high level in 2011.

Figure 4.5

Agricultural producer prices
(2000=100%)



Out of crop products the price level of oilseeds rose at a higher rate than in the previous year, while that of vegetables and potatoes decreased significantly. After a moderate rise in 2010 the producer price of live animals and animal products was up by 15% last year. As an effect of higher foreign demand, 42% more was paid to producers for cattle for slaughter among live animals than one year before. Concerning animal products the price of milk has been rising almost continuously for two years, at an annual level the increase of 14% in 2010 was followed by a price rise of 20% last year. The price rise of 41% in the price of fresh eggs in December 2011 (compared to December of the previous year) – which was the effect of stricter EU regulations on chicken keeping – led to an increase of one and a half per cent in 2011 as a whole.

The **input price level of agriculture** was 4.4% and 13% higher in 2010 and 2011, respectively, than in the previous year. Considerable rises were recorded in the price of fertilizers as well as animal feedingstuffs in addition to energy. The terms of trade, calculated as the quotient of agricultural producer prices and agricultural input prices, improved in the last two years, since producer prices rose at 12% and 5.7% higher rates in 2010 and 2011, respectively.

Surplus on external trade in food, beverages and tobacco growing year by year

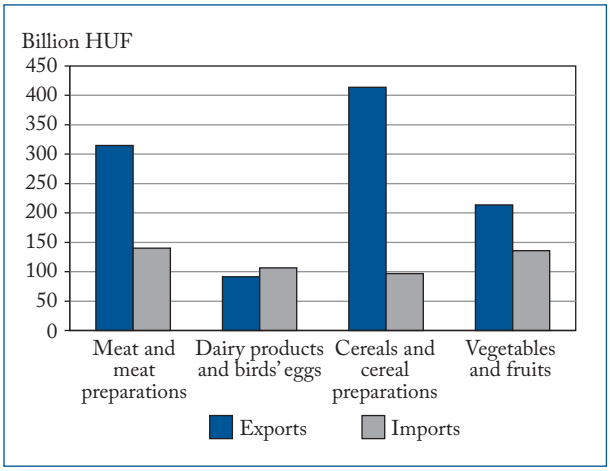
A substantial fall was registered in external trade of food, beverages and tobacco following EU accession. As an effect of imports flowing in from EU countries, a surplus of only HUF 181 billion was generated in 2005, considerably lower than formerly. The **external trade surplus** of this main commodity group was already significantly higher in the last five years than the former values; in 2011 it grew by nearly one-quarter compared to the previous year and more than two-and-a-half-fold compared to 2004. The growth mostly resulted from the export surplus of crop products, and within them cereals and cereal preparations. Out of live animals and animal products the export surplus of meat and meat preparations was the most substantial, while in case of dairy products and birds' eggs – similarly to

2010 – imports exceeded exports. Our highest export surplus came from our trade with Romania and Slovakia, while nearly three-quarters of our import surplus continued to be generated in our trade with Poland and the Netherlands. As a large quantity of sugar was imported from Brazil, it was ranked in the third position among partner countries.

Nearly 26% of the exports of this main commodity group were constituted by cereals and cereal preparations, a further 20% by meat and meat preparations, but the exports of vegetables and fruit represented a considerable proportion, too. Compared to the previous year the value of exports was up in case of all products, and that of tobacco and tobacco manufactures to the highest extent, by 68%. More than four-fifths of exports including agricultural crude materials were to 15 (of which 11 EU) countries. Germany is in the first place, followed by Slovakia and Romania.

The value of imports was the highest in case of meat and meat preparations, but significant values were represented by the imports of vegetables and fruit as well as dairy products and birds' eggs. Compared to the value of imports in 2010 the imports of cereals and cereal preparations grew by a third, and within the main commodity group only the import value of live animals was (16%) lower than in the preceding year. 21% of imports came from Germany, which, if extended with the figures of another 12 EU countries, accounted for 88% of imports.

Figure 4.6
External trade of main groups of food, 2011



Industry

The Hungarian industrial output is characterized by sectoral, regional and corporate concentration: the manufacture of machinery subsections have a nearly 50% proportion of the output, Central Hungary and Central Transdanubia accounting for nearly the half of production, with large companies contributing with approximately 70% to total production. In addition to this, sector performance has been supported by significant exports for years. In 2011, export sales accounted for more than a half of the industrial output, within this, 70% of the manufacturing output was exported. The global economic crisis continues to make its presence felt: the rise of external demand decelerated and the domestic one was not able to reach the level of the previous year after the crisis.

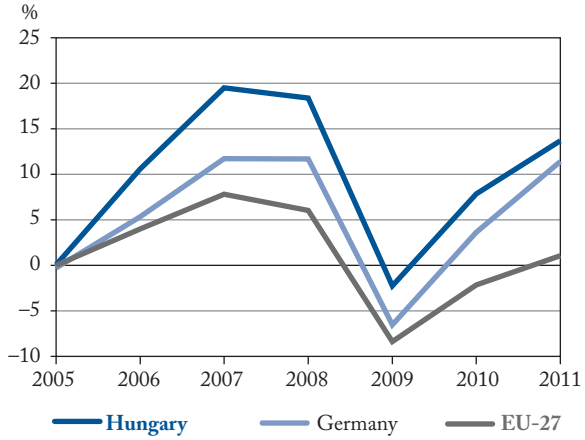
Hungarian industry was mainly boosted by the German boom

The **European Union** is the most important market for our industrial products – its economic state and performance practically determines Hungarian industrial exports. The EU saw, according to working-day-adjusted data, a 6.8% growth in the volume of industrial output in 2010, and the rate of growth slowed down to 3.3% year on year in 2011. The average of the 27 member states had a gradual slowdown in output volume during the year. In 2010, German industry, which plays an outstanding role from the point of view of Hungary, showed an over one-tenth rise in output compared to the previous year, while in 2011, a slowdown took place and a 7.5% increase occurred in the output. In 2011, the performance of the booming German industry already reached the pre-crisis level of 2007, while that of Hungary remained below that.

Of the **Visegrád countries**, the Polish industry was less impacted by the crisis, here and in Slovakia the industrial output exceeded the pre-crisis level already in 2010 with an ongoing dynamic increase in 2011 as well. The industry of the Czech Republic managed to reach the pre-crisis level in 2011.

Figure 4.7

Change in industrial output*
(compared to 2005)



* Working-day adjusted data.

Export sales continued to be the driving force for Hungarian industry in 2011

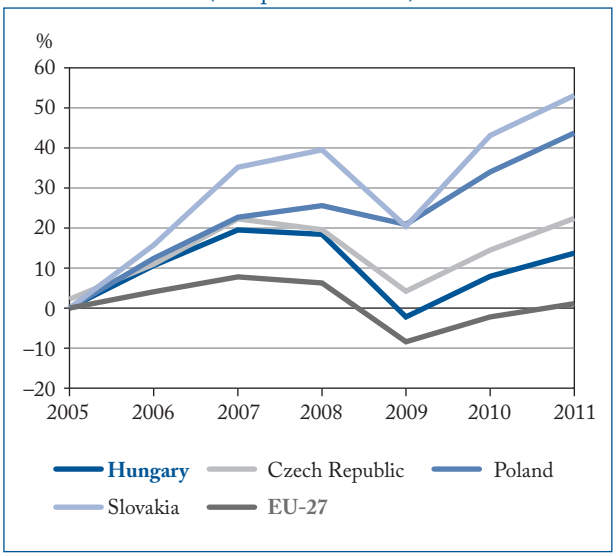
In 2011, the **Hungarian industry** – after the 18% fall in 2009, meaning the low during the crisis and a 10.6% expansion in 2010 – increased by 5.4% year on year in **gross output**. While quarter 1 saw an over one-tenth (12.6%) rise in production, quarter 2 presented a sharp slowdown in pace and an around 3% expansion was observed in quarters 2 and 3. Base-period processes as well as a significant slackening in export sales played a role in this deceleration. Considering sales directions, the intra-year rate of export sales growth slowed down to an annual 7.6%, while domestic sales continued to slump, as in the previous years, with a 5.1% drop in volume compared to the previous year.

In 2011, out of **industrial sections**, manufacturing accounted for about 93% of the output. The proportion of electricity, gas, steam and air conditioning supply was down from 7.3% to 6.9% in output, while that of mining and quarrying, representing a small weight, remained unchanged compared to the previous year (0.4%).

Along with the post-crisis boom in industrial production, the proportion of export sales started to grow again: in 2010 and 2011 exports accounted for 53% and over 55% of all industrial sales, respectively. The significance of export sales continues to be definitively higher – with a proportion of over nine-tenths – in the export-oriented machinery subsections.

Figure 4.8

Changes in the volume of industrial production in the Visegrád countries
(compared to 2005)

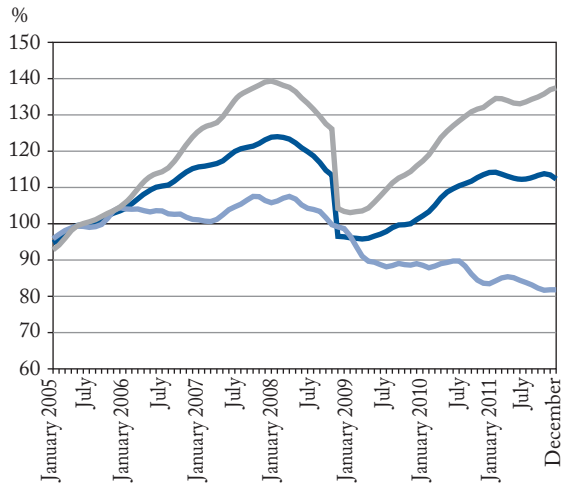


In terms of output, exports continue to account for more than nine-tenths of the manufacture of transport equipment, having the greatest proportion of industrial output, as well as of the manufacture of computer, electronic and optical products. The output volume of the latter, after a remarkable rise in the first three months, turned into a fall, altogether having decreased by 5.4% annually; however, the manufacture of transport equipment, except for four months, saw a double-digit growth resulting in an annual rise of nearly 12%. Of subsections with a more domestic demand-based background, the manufacture of food products, beverages and tobacco products, accounting for the third greatest proportion, but showing an almost continuous 20-year decline in output, increased by 2.5% in output, due to an expansion in export sales, while domestic demand was 3.3% below the low level a year before. In 2011, the manufacture of basic metals and fabricated metal products, except machinery and equipment, of a medium weight, which had suffered the sharpest downturn during the economic crisis, increased practically at the same rate (12.9%) in output as in the previous year. Of smaller

subsections the manufacture of textiles, wearing apparel, leather and related products augmented by around 24% in volume in 2011 after the 2.6% drop in 2010. A significant expansion of 9.2% was also seen in the manufacture of pharmaceuticals, medicinal chemicals and botanical products, while a 1.9% and a 2.6% drop was seen in the manufacture of coke and refined petroleum products and in the manufacture of wood and paper products, and printing, with small weight, respectively.

Figure 4.9

Trend in industrial output and sales
(monthly average of 2005 = 100%)



In 2011 only four branches succeeded in exceeding the pre-crisis level of 2007, of which the manufacture of machinery and equipment n.e.c. doubled, also as a result of reclassification in the companies belonging here between subsections, while the manufacture of pharmaceuticals, medicinal chemicals and botanical products as well as other manufacturing expanded by nearly one-quarter, and a 3.9% expansion was observed in the manufacture of wood and paper products, and printing.

Improving productivity along with a slight rise in the number of employees

The state of the crisis-ridden industry improved slightly in 2010 along with a negative impact on the labour market, most strongly felt at that time. In the pre-crisis years **industrial employees** had a proportion

Table 4.3

Structure of industrial production, 2011

Subsection	Share from industrial output, %	Output volume		Proportion of export sales from subsection sales, %
		previous year = 100.0	2007 = 100.0	
Mining	**0.4**	**116.1**	**108.7**	**10.0**
Manufacturing	**92.7**	**105.8**	**96.0**	**70.5**
Manufacture of food products, beverages and tobacco products	10.0	102.5	93.0	34.1
Manufacture of textiles, wearing apparel, leather and related products	1.4	124.4	82.3	82.1
Manufacture of wood and paper products, and printing	3.0	97.4	103.9	44.6
Manufacture of coke and refined petroleum products	7.9	98.1	87.3	29.4
Manufacture of chemicals and chemical products	5.0	107.7	96.5	54.7
Manufacture of pharmaceuticals, medicinal chemicals and botanical products	3.0	109.2	124.3	82.7
Manufacture of rubber and plastic products, and other non-metallic mineral products	6.7	109.4	93.1	59.3
Manufacture of basic metals and fabricated metal products, except machinery and equipment	6.9	112.9	78.8	60.7
Manufacture of computer, electronic and optical products	17.2	94.6	96.3	94.4
Manufacture of electrical equipment	3.8	89.1	58.8	85.1
Manufacture of machinery and equipment n.e.c.	7.4	144.1	210.1	87.6
Manufacture of transport equipment	18.0	111.8	94.5	92.2
Other manufacturing, and repair and installation of machinery and equipment	2.3	103.8	124.4	49.8
Electricity, gas, steam and air conditioning supply	**6.9**	**98.9**	**92.4**	**8.4**
Total industrial output	**100.0**	**105.4**	**95.9**	**55.1**

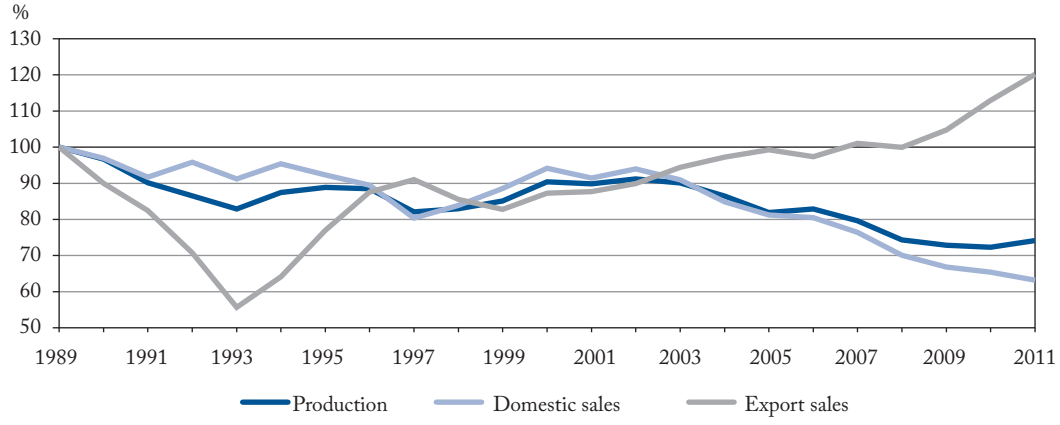
Food industry in more detail

The manufacture of food products, beverages and tobacco products has had a long-established global strategic importance: this is the number 1 section in EU's manufacturing and the largest employer. At the same time spatial and ecological limits can be seen against an outstanding boost in food demand. The overproduction of the last decades and the free movement of goods more and more necessitate the security of food supply and of the identification of food safety issues. Countries with comparative advantages in the area of food production – e.g. Hungary – are interested in utilizing this in the most effective way. Hungarian food production has outstanding assets, thus – via regaining and enhancing its former competitiveness – it can contribute to the development of the whole economy.

Hungary's food industry – despite its strategic importance – has continued to decline in proportion of industrial output since the change of regime: in the early 1990s it accounted for 23% of the gross industrial output and for 17% of employees. In 2000, these figures shrank to 14% and 15%, respectively; in 2011 this manufacturing subsection gave one-tenth of industrial output and 14% of employees. On the one hand, domestic food industry is the central element of the food supply chain, on the other hand, it purchases two-thirds of the agricultural output for further processing. In 2011, food industry employed directly approximately 96 thousand people, and indirectly nearly 75 thousand people in agriculture. Despite its strategic importance, Hungarian food industry has been in a serious crisis for years: it was unable to utilize the possibilities related to EU accession and partly as a result of this it saw a decline in its subcontractor position. Domestic demand has undergone a year on year decline since 2003, so by 2011 a reduction of one-third was seen in the volume of domestic sales in comparison with the period of the change of regime. Export sales of the manufacture of food products, beverages and tobacco products, of a small weight, have had a nearly uninterrupted rise in volume since the turn of the millennium, resulting in a growth of over one-fifth in 2011 compared with the level at the time of the change of regime. All in all, Hungarian food industry has shown a decline in profitability for years.[4)]

Figure 4.10

Output and sales of the manufacture of food products, beverages and tobacco products
(1989=100%)



of 28%, having decreased by 3 percentage points by 2010. In 2011, job creation and preservation measures, incentives and especially the newly increasing export-driven production resulted in a moderate growth in this branch.

The number of employees went up by over 19 thousand, resulting in – among enterprises with at least 5 persons – a 3.4% staff expansion. 2011 saw a 1.9% rise in productivity year on year. A rise in productivity was seen in the manufacture of

[4)] *Source*: Department of Food Chain Analysis of the Ministry of Rural Development: A magyar élelmiszeripar stratégiai jelentősége (The strategic importance of Hungarian food industry), retrieved from the website of the Hungarian government.

textiles, wearing apparel, leather and related products, in the manufacture of machinery and equipment n.e.c. and in mining and quarrying; at the same time a decrease was observed in the manufacture of computer, electronic and optical products, in the manufacture of chemicals and chemical products, in the manufacture of coke and refined petroleum products, in the manufacture of wood and paper products, and printing as well as in other manufacturing, and repair and installation of machinery and equipment.

Changes in **new orders** continue to be determined by export demand. Manufacturing branches, of which not all are surveyed, had more total orders in 2011 than a year before except for three months; December had a 4.2% rise year on year. Export orders accounted for over nine-tenths of the year-end **stock of orders**, a 19% annual rise, while the stock of domestic orders declined by a year on year total of 9%.

Large enterprises remain the major factors in the performance of Hungarian industry, having accounted for about 70% of the output in 2011. Enterprises with at least 250 employees continue to produce mainly for export markets, in 2011 more than eight-tenths of export sales were generated here. 2011 saw an average growth of 4.2% in the output of large enterprises, their production was chiefly focused in Central Hungary, Central Transdanubia, as well as Western Transdanubia. **Medium-sized enterprises** showed a fluctuating output in 2011 with an annual rise of 7.3% along with a 15% increase in export sales and a 20% fall in domestic sales. **Small enterprises** with 5–49 employees had an 11% expansion in output compared to the previous year. Growth resulted exclusively from a 15% expansion in domestic sales, since their export sales were lower than in 2010.

Central Hungary, Central Transdanubia and Western Transdanubia continued to account for over three-fifths of the value of gross industrial output, which mainly results from the concentrated presence of large enterprises. In 2011 all regions saw an increase in production volume with a two-digit growth in Western Transdanubia (12.8%) and Northern Hungary (10.5%).

Industrial prices increased mainly as a result of a price rise in domestic sales

The growth rate of **industrial producer prices** has been showing a decline in tendency since 2008: the prices increased by 4.9%, 4.5% and 4.2% year on year in 2009, 2010 and 2011, respectively. In 2009, growth mainly resulted from export sales prices, in 2010–2011 from domestic sales prices. **Domestic sales prices** – despite a fall in demand – went up by 7.3% in 2010 and 6.2% in 2011 compared to the previous year. In 2010, the price rise was mainly influenced – inter alia – by the prices having risen in the manufacture of coke and refined petroleum products, in the manufacture of chemicals and chemical products as well as in the manufacture of basic metals and fabricated metal products, except machinery and equipment, each representing a significant weight in domestic sales. In addition to this, in 2011, a significant increase (8.0%) in the producer prices of the manufacture of food products, beverages and tobacco products, having a large

Tendencies in the manufacture of transport equipment

In Hungary, the manufacture of transport equipment had a production value of HUF 4,087 billion in 2011, the largest out of the subsections of manufacturing. The manufacture of transport equipment, as a result of the global economic crisis, showed a significant decrease in output in 2009, a 29% slump in volume. Along with this, the manufacture of transport equipment also saw a considerable fall in the number of employees: this subsection had a staff number of 86 thousand in 2008, which was downsized to 67 thousand in 2009. 2010 and the subsequent year saw a strong increase in output, nonetheless, the level of 2011 was 6.4% lower than three years earlier (there was a smaller fall of 3.3% in manufacturing as a whole). The number of employees in this industrial subsection showed only slight increases in 2010 and 2011, so the rise in output can be ascribed to an increase in productivity. The rise in productivity resulted in the increase of real wages in this subsection.

In 2010, the manufacture of transport equipment generated a gross value added of HUF 705 billion. In the same year the annual gross value added per employee was HUF 10.4 million, nearly one-quarter higher than the average in manufacturing. Thus the productivity of the manufacture of transport equipment was higher than the average of manufacturing, which was reflected in incomes: in 2011, the monthly average gross earnings amounted to HUF 251,900 in the manufacture of transport equipment, 18% higher than in the whole of manufacturing and in the national economy.

Year by year, a highly significant surplus is generated in external trade related to the manufacture of transport equipment; in 2011 it amounted to HUF 2,078 billion. At the same time, exports totalled HUF 3,781 billion. When comparing it with the value of industrial output we can state that external markets account for the overwhelming majority of over nine-tenths of the output. A significant part of our manufacture of transport equipment trade is transacted with Germany, which accounted for 45% and 48% of our exports and imports, respectively, in 2011.

In 2011, HUF 415 billion was invested in the manufacture of transport equipment by various enterprises, a 2.2-fold expansion on four years earlier at constant prices. This significant growth is backed up by recently implemented green-field investments and expansions of major vehicle companies (Audi, Opel, Mercedes-Benz).

Retail sales of motor vehicles, parts and accessories saw an unfavourable change in the past years. 2009 had an over 40% fall in sales, which kept slackening in 2010 and 2011 in spite of the low base. In 2011, sales stood at only 44% of those in the mid-2000s. The reduction resulted from credit conditions becoming tighter and more expensive, from imports becoming expensive due to the weak forint as well as from the impact of austerity measures.

weight, also contributed to this price level increase. Compared with the base year of 2005, domestic sales prices went up by nearly one half (48.6%). **Export sales prices** – after the 1.9% rise in 2010 – increased by 2.8% in 2011 due to the weakening forint.

Construction

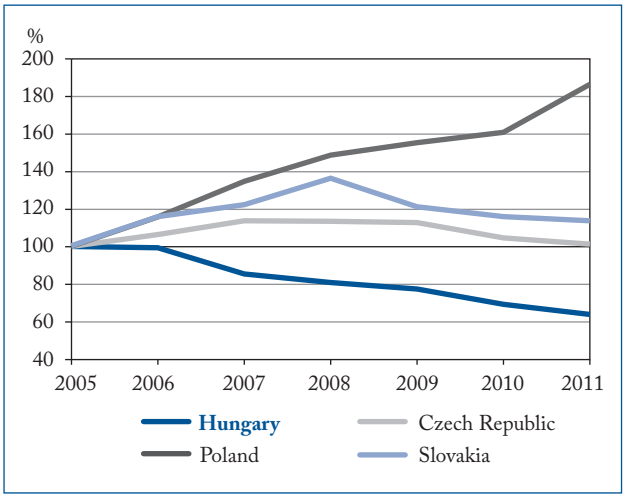
Construction output in Hungary has been diminishing since 2006

In 2011, output was 7.8% lower in volume than a year earlier and stood at less than two-thirds of that in 2005.

The economic crisis – based on non-full-scale and preliminary data – exerted a tangible effect on the construction output in the most of the EU countries. In 2010, most of them saw an ongoing tightening in production, however, in 2011, the volume of production expanded in some of the member states (e.g. Baltic and Scandinavian ones). Of the larger countries, in Germany there was a 13% year-on-year increase in construction output. Poland showed the sharpest growth (16%) due to infrastructural, power plant development, road construction as well as mining investments. However, construction was not able to recover from the crisis in a number of countries. Compared with Hungary, only Spain saw a sharper reduction with an over 50% fall in volume from 2005 on. Germany and Poland were the least affected by the crisis, the latter having been the most successful with an 86% rise in output over the past 6 years.

Figure 4.11

Volume of construction output in the Visegrád countries
(2005=100%)



Construction performances are determined by state, corporate and household demand. As a result of the economic crisis, the orders of private enterprises fell to a low or disappeared (building of office and commercial facilities). In 2011, dwelling construction tumbled to a 20-year low as a result of a 5-year correction. Mainly the state provides orders for the section. 2011 had an increase only in the area of road and railway construction.

Despite the low base, 2011 saw a 7.8% drop in output

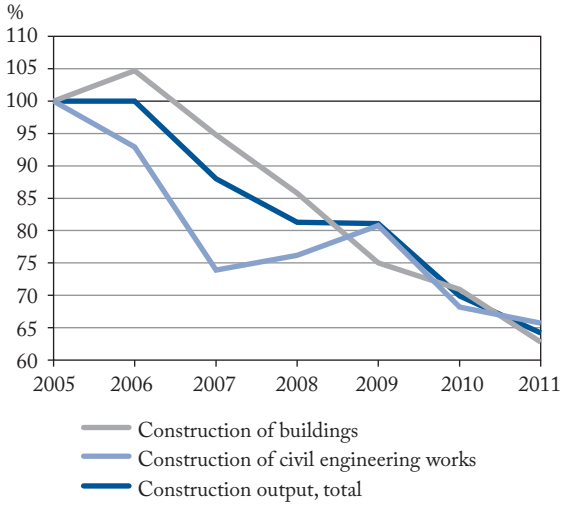
In 2011, in our country, construction had HUF 1,688 billion of **gross output value**, out of which building construction and civil engineering works accounted for 52% and 48%, respectively. Output declined by 7.8% over the year compared with the low base a year earlier.

In 2008-2009, the output of the **main groups of constructions** changed in opposite directions: the construction of buildings lessened, while that of civil engineering works augmented mainly as a result of major state investments. In 2010, both main groups of constructions had already decreased year on year, the volume of construction of buildings and that of civil engineering works having declined by 5.5% and 15.5%, respectively. This tendency continued in 2011, the construction of buildings went on falling by more than 11%, inter alia as a result of a drastic slump in dwelling construction. The volume of construction of civil engineering works, as a result of the output of enterprises in the road and railways subsection and the very low base, saw a smaller year-on-year drop of 3.8%.

Figure 4.12

Volume of construction output by main groups of construction

(2005=100%)



Effect of the UEFA European Football Championship on the Polish construction industry

In June 2012, the European football-championship was hosted by Poland and Ukraine. The catching up of the country in terms of sport facilities and infrastructure was a precondition to this. In Poland, the construction of a number of motorways, road junctures, flyovers and bridges has started with EU co-financing to ensure, among other things, conditions for motor vehicle transit transport, access to sea ports and in this way the development of the region. The country is to receive EUR 67 billion from the EU budget of 2007–2013. Using this, four Polish stadiums have already been built by Polish construction companies. These are complex facilities suitable to serve as premises for other events as well. Motorway construction is somewhat slower than this.

The economic crisis has not resulted in a downturn in Poland, in 2011 the GDP and the industry grew by over 4% and 8.7%, respectively, which was outstanding not only in the Central European region but in the whole of Europe. Despite this, Poland negotiated a Precautionary Credit Line with the IMF at first in 2009, then in 2010, however, the sum of EUR 30 billion was not used. The export dependency of Poland is not as high as that of Hungary, so negative external factors hinder less the economy.[5)]

[5)] *Source*: Csontos Zsuzsanna: Példaértékű a lengyel válságkezelés (The Polish crisis management is exemplary), February 24th 2012, retrieved from Kitekinto.hu; Csődbe viszi a lengyel építőipart a foci Eb (The European Football Championship bankrupts the Polish construction industry), retrieved from hvg.hu, October 25th 2011.

Table 4.4

Volume of construction output by headquarter
(previous year = 100.0)

(%)

Regions	2009	2010	2011
Central Hungary	96.9	83.5	97.0
Central Transdanubia	83.7	89.2	89.9
Western Transdanubia	89.1	96.0	99.1
Southern Transdanubia	90.7	116.5	80.7
Northern Hungary	93.4	93.6	70.5
Northern Great Plain	83.7	96.3	103.7
Southern Great Plain	90.3	101.2	99.0
Construction, total	**95.7**	**89.6**	**92.2**

In 2011, **new contracts** worth HUF 1,267 billion were concluded in construction industry, nearly one-fifth lower than in 2010. Though in December an upswing took place in contracting activity, still, the whole year had a sharper fall (16.7%) in the volume of new contracts than the rate of decline in production. The volume of contracts for building construction and for civil engineering works fell by one-fifth and 13%, respectively, compared to the previous year. At the end of 2011 the **stock of contracts** of enterprises in construction was 43% below the volume a year before.

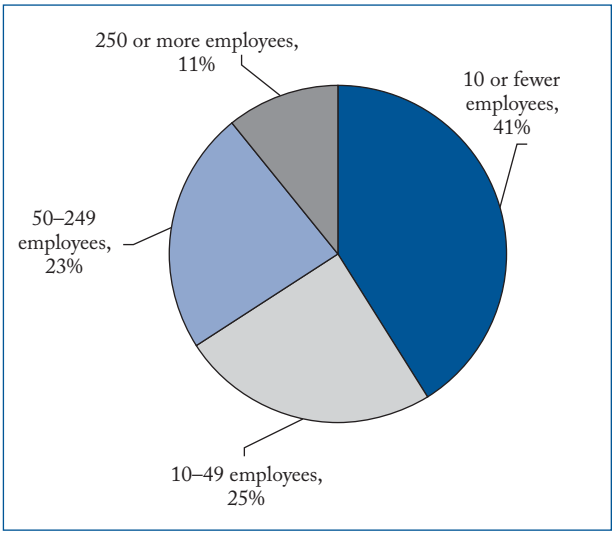
Construction enterprises accounted for over four-fifths of the national construction output, and about three-fifths within that has been produced by small enterprises for years. By producers, the structure has shown no change for years.

The number of **employees** in Hungarian construction industry had gone on rising until 2006, then it decreased or remained unchanged (2010). In 2011, construction accounted for approximately 4% (116 thousand) of employees in the national economy, 2.6 percentage points below the previous year. This staff figure has been lower since 2009 than the level at the turn of the millennium.

Along with a multi-year reduction in section performances, **construction prices** – according to the construction producer price index measuring changes in prices paid to the contractor by the builder – increased by 2.2% in 2011. Prices in the construction divisions of civil engineering and specialised construction activities increased by 2.5%, while the division of construction of buildings saw a 1.4% rise in prices.

Figure 4.13

Distribution of construction output by enterprise staff category, 2011



Downsides of construction industry

Construction is among the branches where the black and grey employment is a widespread phenomenon, which, according to an earlier study, fundamentally can be related to dwelling construction. According to this, the black and grey economy has two closely related areas, one of them is the area of un-invoiced activities, the other one is employment with reported wages substantially lower than the real level, which are mainly significant in the areas of household services. Thus un-invoiced payments probably account for over 40% of revenues in this section. According to the calculations of this study, this non-taxpaying employment accounts for around 20%, i.e. in case of an employment level of 300 thousand, 60 thousand unreported employees can be assumed.[6)]

[6)] *Source*: Kutas János: Dilemmák a fekete-szürke gazdaság visszaszorításának lehetőségeiről az építőiparban (Dilemmas of options on repressing the black and grey economy in the construction industry), In: Munkaügyi Szemle, 2005/1.

Another highly serious problem for construction industry, lasting for years is the "vicious circle of debts", the principal reason for which is the weak bargaining position of main contractors, who are pressed to work at low prices as a consequence of the small market and too few orders. Because of the lack of capital, subcontractors are not paid out in many cases at the end of a transaction. The lack of capital in the section that started some years ago partly results from minimal profit margins. According to the latest published data of the National Federation of Hungarian Contractors, the vicious circle of debts totalled an estimated HUF 400 billion at the end of 2011, which is continuously recreated. The biggest problems for this section are constituted by the extremely bad liquidity and profitability situation, the practice of unrealistic public procurement contract prices as well as long-lasting business lawsuits. In 2011, around 4,300 construction enterprises were liquidated, a 10% rise year on year.[7)]

Transport, traffic

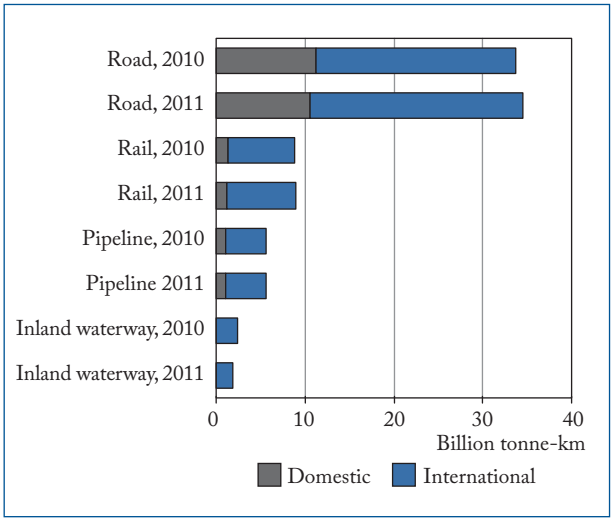
Goods transport performances increased slightly along with the expansion of international transport

The national economy saw a double-digit growth in 2004-2007 in **goods transport performances** measured in freight-tonne kilometres, and the performance in 2007 was up by two-thirds compared with the level four years before. In 2008 and 2009, a drop was seen in performance, the overwhelming part of which occurred in 2009. 2010 and 2011 saw slight increases of less than 1% each, as a result of which the performance of 2011 was 5.5% lower than in 2007. The slight growth of performance in 2011 resulted from an increase in haulage length, since last year saw a drop (6.0%) again in the volume of transported goods. At the same time the increase of haulage length resulted in the expansion of international transport, which accounted for three-quarters of transport performances in 2011. (At the same time, domestic transport was dominant in volume: in 2011, domestic transport accounted for 169 million tonnes of goods, i.e. for 64% of all goods transported.)

In 2011, out of the total performance of freight transport, road transport accounted for 68%, rail transport for 18%, pipeline transport for 11% and inland water transport for the remaining part. In 2011, a 2.3% rise in performance occurred in road transport (after a three-year decline). Rail transport

Figure 4.14

Performance of goods transport in transport subsections



rose by the same figure, in this case a three-year correction was also seen in performance between 2007 and 2009. These years entailed a significantly higher drop in the performance of rail transport than in that of road transport (24% and 6%, respectively), as a result of which railways, which are less appropriate for point-to-point transport, but regarded as more environment-friendly, lost ground compared with roads. The performance of pipeline transport diminished by 0.7% in 2011 compared to the previous year, while water transport had a 23% fall compared with the high of 2010 of the last decade. All in all, the growth of the past one or two years was not able to offset

[7)] *Source:* ÉVOSZ: Siralmas az építőipar helyzete (National Federation of Hungarian Contractors: State of the construction industry is lamentable), 2nd June 2011, retrieved from the website of Vállalkozói Negyed.

the earlier large-scale fall in case of any mode of transport, and all of the four types of transport had a lower performance in 2011 than in 2007.

A rise in air passenger traffic enhanced performance in interurban passenger transport

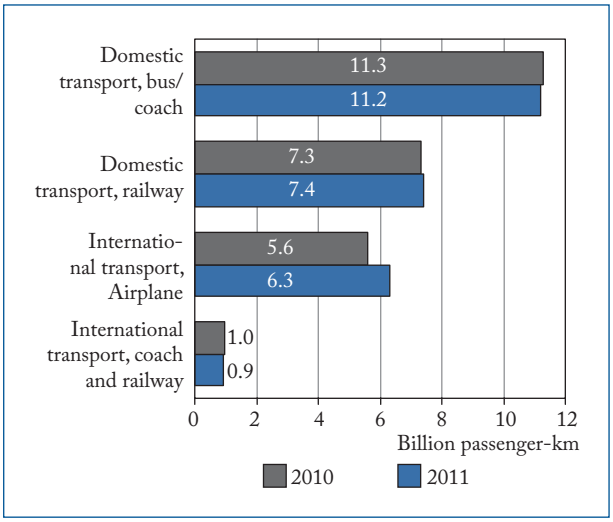
In 2007–2009, **interurban passenger transport** declined in performance measured in passenger-kilometres, the performance of 2009 was around one-tenth below the level three years before; however, growth rates of 1.1% and 2.8% were reached in 2010 and 2011, respectively. In 2011, coaches/buses, railways and airplanes accounted for 45%, 30% and around one-quarter of total performance, respectively. The performance of coach/bus transport oscillated during the recent years. In 2011, a 1.3% drop was measured. In 2011, railway transport performances increased by 1.7% for the first time since 2004 (the correction totalled 25% between 2004 and 2010). Performance in air transport rose by 13% in 2011, a higher rate of increase was seen in 2006 for the last time. Air traffic performance was already on the rise in 2010, however, as a consequence of the sharp negative correction (20% as a whole) seen in 2008 and 2009, last year's performance was still 8% lower than that of 2007. In 2011, passenger traffic at the Budapest Liszt Ferenc Airport hit an all-time high with a total of 8.9 million arrivals, an 8.9% rise year on year. Germany, the United Kingdom, Italy and the Netherlands were the most important relations in the scheduled traffic of the airport.

Domestic and international transport accounted for over seven-tenths and nearly three-tenths, respectively, of interurban passenger transport, the rise in total performance having resulted from an expansion in international transport. The number of interurban passengers in 2011 (664 million people) was nearly the same as a year earlier, so the growth in passenger-kilometres can be explained by a growth in the average length of transport (the latter reaching 39 kilometres in 2011).

No significant year-on-year change (0.2%) was seen in the number of those using **local passenger transport services**. This interrupted the decline of 2006–2010, which resulted in a 17% drop in the number of passengers. 2011 saw a small rise in the number of tram passengers and a slight diminishment in that of bus and trolleybus passengers. 55% of the passengers used bus, 22% tram, 15% metro or underground and 5% trolleybus while travelling in the area of the given settlement. Between 2005 and 2011, each mode of transport saw a drop in performance, buses showing the sharpest fall (23%), while metro and underground the slightest one (7%). The average length of transport was 3.7 kilometres in 2011. Considering the number of passengers transported, the capital accounted for 48% of local bus transport, for 73% of local trolleybus transport and for 87% of local tram transport.

Figure 4.15

Performance of interurban passenger transport by major modes of public transport



Volume of the gradually aging passenger car stock has been declining for years in Hungary

In the course of 2011, the number of **passenger cars registered for the first time in Hungary** was about 76,470, a one-quarter rise year on year but only nearly one-third of the average of the pre-crisis years of 2003–2007. The registration of second-hand cars played a major role in this growth compared to the

previous year, the number of new cars (47,608) is only 3.3% higher than in 2010. Opel and Volkswagen were the major brands with nearly 9 thousand newly registered cars. Suzuki was still slumping with only 2.2 thousand newly registered cars, a 15% fall compared to one year before. (This Japanese brand had been the market leader in Hungary between 2005 and 2008 with an average annual registration figure of nearly 32 thousand).

After 2009 and 2010, the number of the **passenger car stock** decreased last year again and stood at a year-end figure of 2 million 968 thousand, 16 thousand fewer than at the end of 2010 and 88 thousand below the all-time high of 2008. In 2011, Opel and Suzuki were the most widespread brands, as in the previous years; the former's stock was 429 thousand, while the latter one's 401 thousand. At the end of 2011, the average age of the passenger car stock was 11.9 years, 0.6 year higher than at the end of 2010. In the past ten years, the stock was the youngest (10.3 years) in 2006 and 2007 and has been growing older since then. In the past ten years, the average age was the highest in 2011, due to which higher occurrence of diseases related to emission of polluting material can be anticipated.

Telecommunications, internet

In the past two to three years, innovations in information technology, having changed phoning and telephone use patterns, significantly determined the development of the telecommunications sector.

Fewer fixed telephone lines and mobile phone subscriptions

The number of **fixed telephone lines** continued to decrease: 1.5% fewer fixed lines (2,890 thousand) were in operation in 2011 than a year earlier. Subscribers had fewer but longer calls compared with mobile phoning. It mainly resulted from changes in subscription conditions during the past years: subscription packages, along with a drop in per-minute charges, frequently include periods free of charge and free calls in the network. Internet-based communication channels (e.g. Skype) have also become widespread over the past years[8]. More than 2 million people use VoIN options (Skype, MSN, chat-lines etc.) in interpersonal communication in Hungary.[9]

In 2011, the number of **mobile phone subscriptions** (11.7 million) also decreased year on year (by 2.7%), however, the year-end number of post-paid subscriptions was higher than that of pre-paid subscriptions. This change can be attributed to the fact that service providers increasingly encourage customers to switch to a monthly post-paid contract with no need to buy a new SIM card when changing device. Data traffic via the mobile network increased dynamically, by around one-third, which is in connection with the spectacular spread of mobile internet.

Use of mobile internet is expanding dynamically

In 2011, the number of **internet subscriptions** continued to rise. At the end of 2011, there were more than 4.3 million subscriptions, a nearly 30% growth compared to the previous year. Unambiguously mobile internet was the driving force behind this expansion. In contrast to this, broadband cable TV and xDSL subscriptions increased by hardly 5% in number.

The **market of internet services** was still concentrated: 9 enterprises accounted for 90% of subscriptions. (At the end of 2011, the number of internet service providers was 393). However, the total increase of 4% in the turnover of internet service providers was less than the rise in the number of subscriptions, which can be explained by the sharp competition characterized by ongoing promotions and falling charges.

[8] *Source*: Special Eurobarometer 362: E-Communications Household Survey, European Commission, 2011.
[9] *Source*: National Media and Infocommunications Authority – Hungary: Távközlési szolgáltatások használata a lakossági felhasználók körében 2011 (The use of telecommunications services among households, 2011), 2012.

Backdrop of mobile internet

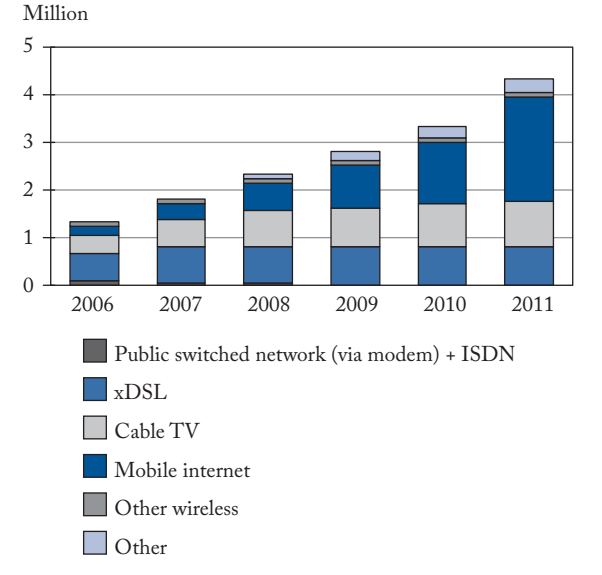
Mobile internet penetration deepened significantly in Hungary as well in the past two years. A number of technological innovations (development of smartphones, spread of tablets and other similar mobile devices) played a beneficial role in this expansion, which was supported by an increasing IT penetration in households. In 2011, 95% of households had a mobile phone, while 60% and 31% of them had a desk top computer and a laptop, respectively. Smartphone penetration contributed to the spread of mobile internet, too: according to a survey[10], at the end of 2011, 15% of mobile phones were smartphones, a 9 percentage point rise year on year. Nowadays over 1 million people have been using a smartphone.

As a result of the development of mobile technology internet access has become unlimited in space. The use of mobile internet is becoming more and more significant, the spread of which is facilitated by faster data transmission solutions. In case of GPRS (2G, i.e. second generation mobile phone technology) or a further-developed version of that the geographical coverage is over 90% for each service provider[11]. The second generation bandwidth is low for subscribers[12]; only one provider offered a significantly better 3G network with HSPA (High Speed Packet Access) standard. However, it had a geographical coverage of only 23%. In this case the available downloading and uploading speeds are 2,000 and 800 kbits/s, respectively. The fourth generation mobile technology can be accessed in the area of Budapest since January 2012 (in case of one service provider[13]). In case of 4G/LTE the downloading and uploading speeds are 4,000 and 2,000 kbits/s, respectively[14].

The future development of mobile internet may be supported by the recent sales of frequency bands. Each of the frequency blocks sold during the 900 MHz frequency auction of January 2012 and during the 26 GHz frequency auction of March 2012 allows service providers to create developed broadband (e.g. 4G) systems as well as to increase the geographical coverage.

Figure 4.16 ***Household internet penetration is deepening but still lagging behind the EU average***

Number of internet subscriptions by access



Despite a dynamic increase in access of **households** to internet (which is reflected by subscription figures) Hungary is considered to have a low internet penetration rate in EU comparison. In 2011, 65% of households had internet access at home, which was 8 percentage points lower than the EU average. By the distribution of internet technologies, mobile internet accounted for 16% of household subscriptions in 2011. Around 240 thousand households had only this type of internet access.

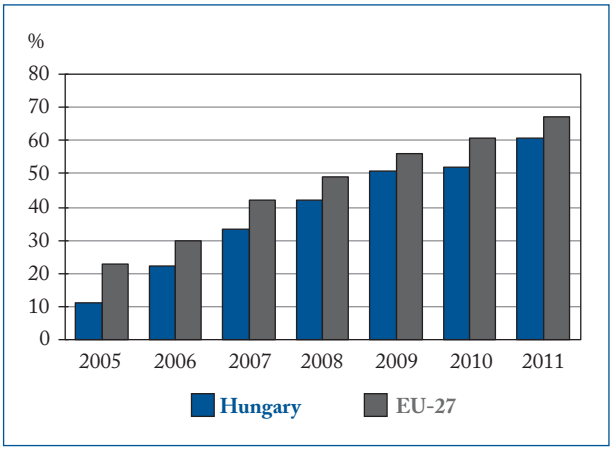
Household ICT penetration and e-commerce are in interaction with each other. In 2011, 13% of the population were regular e-shoppers (shopping this way at least once in every three months). (In 2011, 34% of EU residents took part in e-commerce.)

[10] *Source*: National Media and Infocommunications Authority – Hungary: Távközlési szolgáltatások használata a lakossági felhasználók körében 2011 (The use of telecommunications services among households, 2011), 2012.
[11] *Source*: National Media and Infocommunications Authority – Hungary: Mobilinternet-gyorsjelentés, 2011. december. (Mobile internet first release, December 2011), 2012
[12] The speed guaranteed by the service provider for subscribers in 80% of cases.
[13] *Source*: Magyar Telekom Nyrt.
[14] As a general condition guaranteed by the contract.

Internet sales accounted for 17% of the turnover of domestic enterprises. Transactions implemented via websites had only a 3% proportion. The low consumption level of households hinders market expansion, while the IT development of e-commerce participants and the growing popularity of internet shopping support it.

Figure 4.17

Share of households with broadband internet access of all households



Mobile connection is becoming more widespread in the enterprise sector as well

In 2011, nine in ten **business sphere participants** had internet access, 87% of enterprises had broadband internet access. Of the EU member states, Hungary was in the last third, but our backlog from the EU average is smaller than in case of households. Considering internet access, two-thirds and 38% of enterprises had xDSL and mobile broadband internet access, respectively.

Between 2007 and 2010, the proportion of enterprises using online banking and financial as well as administrative services rose continuously. In 2010, these shares were 88% and 80%,[15)] respectively. One in five enterprises used online instruction and educational services. (95% of financial and insurance enterprises used the internet mainly for interacting with public authorities.) Information gathering was the main type of use for enterprises while dealing with public administration issues. In 2010, 89% of enterprises downloaded some form from the internet and 83% of them replied on-line, however, only 51% of them conducted the whole procedure online.

Retail trade

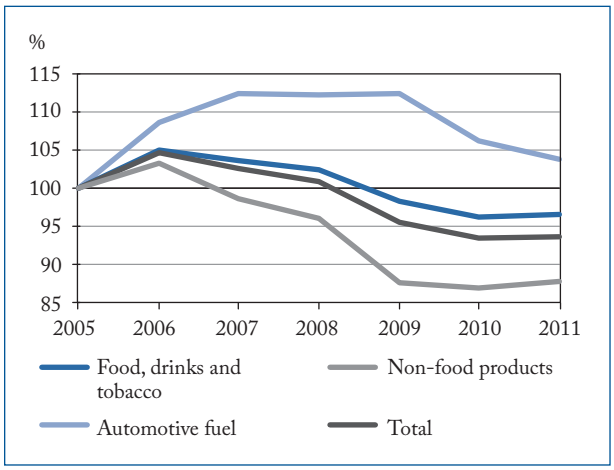
In some of the years after the turn of the millennium, a growth was seen in consumption along with a rise in real incomes, in this way sales in retail shops also went up year by year. However, from 2007, as a result of demand-reducing government measures, aiming to improve the balance, sales in retail shops plummeted along with consumption. This decline was further aggravated by the global economic crisis: sales in retail shops slackened by more than 5% in 2009. 2011 the saw the end of a four-year decline in Hungarian retail trade: sales stopped diminishing. In 2011, the turnover of retail sales units was influenced by a rise in real wages resulting from the change of personal income tax rules and by the payout of the real returns of pension funds, but the favourable effects of these were offset by an increase in the instalments of foreign currency loans, the unfavourable labour market situation and inflation. In 2011, similarly to Hungary, the EU as a whole saw no change in retail sales, while the major economies were already characterized by growth.

2011 had fluctuations in retail sales during the year, the majority of monthly sales figures showed a rise, slight as they were, compared to the same month of the previous year. From August, monthly data showed a rise in sales, which partly resulted from the low base a year earlier. During the last month of the year – which is the most profitable period anyway for retail trade – some of the households advanced their purchases as a result of the VAT increase in January 2012, which also exerted a favourable influence on sales.

[15)] Data referring to 2009.

Figure 4.18

Volume of retail sales
(2005=100%)



Food, drinks and tobacco sales constituted nearly half of all sales

In 2011, HUF 7.9 thousand billion of sales were generated in the national network of retail shops and mail order houses. Considering the **structure of sales**, food, drinks and tobacco sales accounted for 44.5% of the total turnover in 2011, while non-food products and automotive fuels had shares of 37.4% and 18.1%, respectively. Recent years have seen a change in the structure of sales, the proportion of food sales continuously gaining ground against that of non-food products, the main reason for which is a sharp rise in food prices.

Food, drinks and tobacco retail sales were up by a total of 0.3% compared to 2010. Within this, non-specialized stores (hyper-, supermarkets, groceries), composing a significant part (91%) of total turnover were stagnant in sales, while specialized food, drinks and tobacco stores grew by 1.2% in performance. An above-average price rise of 6.6% of food contributed to the expansion of food sales. However, sales in specialized stores were enhanced by a significant slowdown in the price rise of alcoholic and tobacco products.

The downturn of 2007–2010 in the **sales of non-food products** turned into a 1.1% growth in 2011. Within this – along with an expansion in e-commerce – sales via mail order houses were 32% higher year on year. Furniture and electrical goods as well as construction materials sales, with a considerable market share had a 1% annual drop in sales, while the volume of turnover in December was significantly higher than a year earlier. An increase was seen in the market of 'books, computer equipment and other' (4.4%) and that of 'pharmaceutical and medical goods' (0.5%). Textiles, clothing and footwear stores saw an ongoing decrease in sales, faster than in 2010.

Table 4.5

Changes in retail sales, 2011

(%)

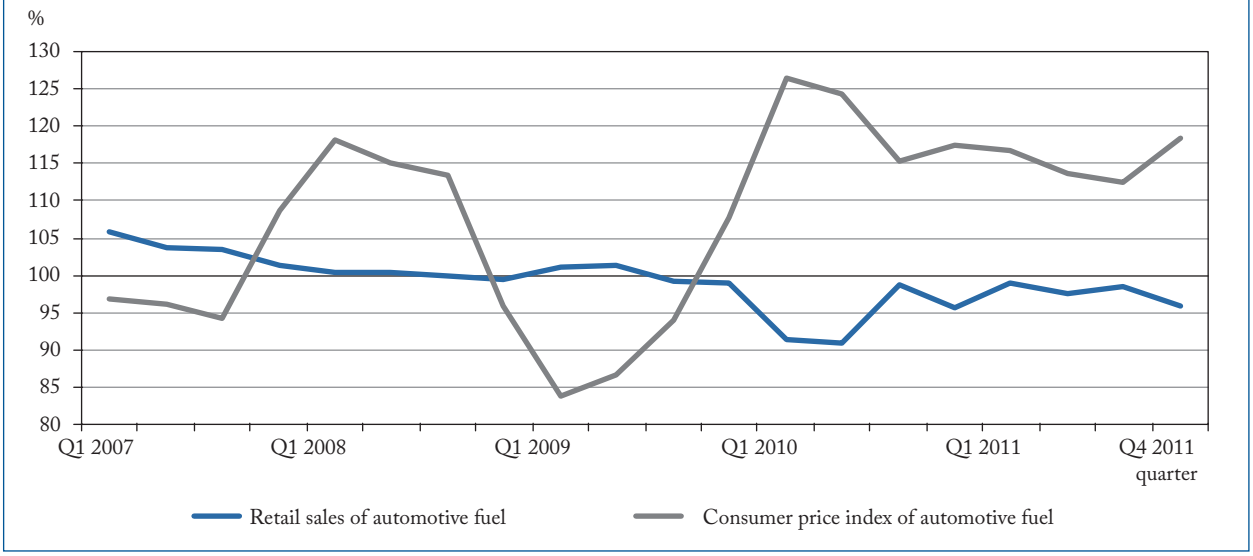
Denomination	Distribution of sales	Change in sales compared to previous year
Food, drinks and tobacco	**44.5**	**+0.3**
Of which:		
Non-specialized	40.4	+0.2
Specialized	4.1	+1.2
Non-food products	**37.4**	**+1.1**
Of which:		
Sales in non-specialized stores	3.0	–0.9
Textile, clothing and footwear	4.9	–3.9
Furniture and electrical goods, construction materials	13.2	–0.9
Books, computer equipment and other	9.1	+4.4
Pharmaceutical and medical goods	6.0	+3.1
Secondhand goods in stores	0.4	+2.9
Mail orders and internet	0.8	+31.8
Automotive fuels	**18.1**	**–2.3**
Total	**100.0**	**+0.2**

After a 5.5% drop in 2010, **automotive fuel sales** diminished by 2.3% year on year in 2011, while automotive fuel prices had a slight slowdown in growth rate from 21% to 15%. Since the start of the crisis, retail sales have typically been slackening along with a rise in fuel prices, especially since early 2010, when a significant fall was seen in sales as a result of a fast and sharp rise in automotive fuel prices.

Sales in motor vehicles and motor vehicle parts and accessories stores, following a significant fall in 2009, dropped by nearly 10% in 2010, and, on this low

Figure 4.19

Consumer prices and sales of automotive fuels
(same period of previous year=100%)



base, decreased by another 4.5% in 2011. The fall in sales mainly derived from the shrinking of household disposable incomes and rigorous credit conditions.

Analyzing retail sales by **commodity group**, the turnover of food, making up one-quarter of all sales, expanded by a nominal 7.1% and – along with a 6.6% increase in food prices – rose by 0.4% in real terms year on year. The commodity group of footwear and leather goods had the sharpest nominal growth in turnover with a year-on-year annual rise of 17% in sales. Fuels saw the biggest fall (of nearly 20%).

The expansion of shopping centres and hypermarkets has significantly lost momentum in the past year

Shopping centres and hypermarkets started to expand in Hungary and thus became major players in retailing in the last years of the past millennium. At the end of 2011, 117 shopping centres were in operation: 78 in the countryside and 39 in the capital. In the past two years, only 4 new shopping centres were opened in Hungary, much fewer than in the previous years, as 10, 22 and 11 new shopping centres were opened in 2009, 2008 and 2007, respectively. At the end of 2011, the number of hypermarkets was 168: 146 in the countryside and 22 in Budapest. The past few years had seen 15 new hypermarket openings on average in the country. However, in 2011, the expansion of hypermarkets significantly lost momentum, too; only two new hypermarkets were opened.

According to the data of Colliers International,[16] an international company in real estate services, shopping centres had 1,359 thousand sq. m of space as of year-end 2011. Rents plummeted by 10–30% over the past two years; in 2011, shopping centres had an average monthly rent of EUR 63 per sq. m. As in 2010, only a few major trade centres were opened in 2011: two in the capital and only one in the countryside.

During the past years, the major shopping streets of Budapest – being major retail stakeholders along with shopping centres – had expanding sales. In spite of a drop in this segment as well, shop rents in shopping streets were still significantly higher than those in shopping centres.

The shopping mall ban introduced at the end of 2011, supposed to last until 2014, ordained a moratorium on building shopping malls larger than 300 sq. m, which is expected to have an impact on the supply by lowering the number of new shopping centres in the upcoming years.

[16] *Source:* Real estate report, 2012, retrieved from the website of Colliers International.

Role of food vouchers

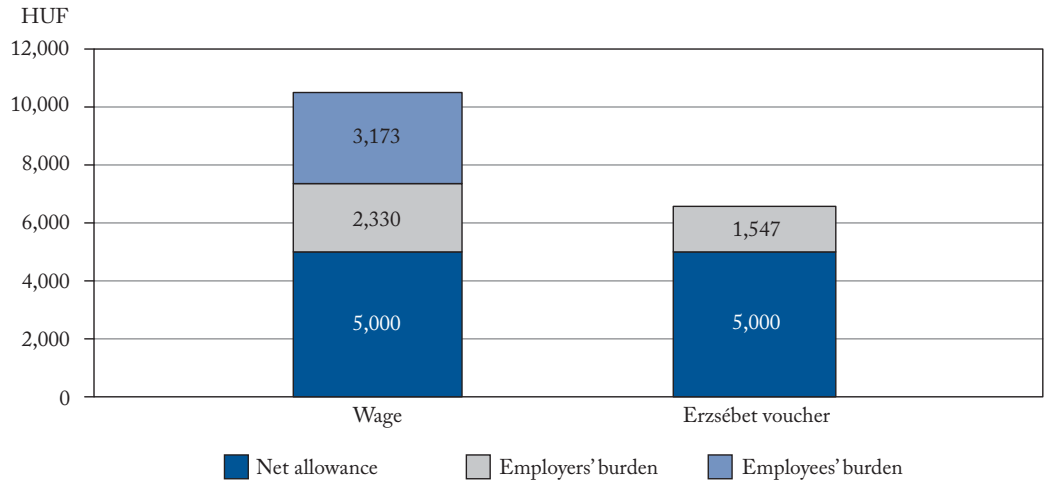
The food voucher system, as the most popular non-wage benefit element, is a well-established method to subsidize meals. Food vouchers contribute to expanding domestic consumption and retail sales as well as facilitate to repress the black and grey economy. In the past years, these vouchers became an important element in employee remuneration packages; in 2009, nearly 70% of the employees, i.e. two and a half million people received such allowances. According to EUFE[17] data, a turnover of HUF 386 billion was generated by the non-wage benefit system with the participation of 2.5 million employees, in which food vouchers had a share of over 50%.

According to *c1 cafeteria* surveys[18], 2011 saw an ongoing increase in the popularity of food vouchers, with a share of nearly 45% within non-wage benefits. In addition to food vouchers only local transport season tickets were able to expand their share, while – as a result of a change in the taxation regulation – a significant fall was seen in that of internet subsidies. In 2011, no significant change was recorded in the size of employee non-wage benefit budgets provided by private companies. However, in 2011, public enterprises and institutions set a maximum threshold of HUF 200 thousand, resulting in a reduction in such allowances for a significant proportion of those working in the public sector.

The transformation of the non-wage benefit system started already in 2010, when the previously tax-free allowances were taxed, and 2012 saw a complete overhaul in food subsidies. The sales of food vouchers under a preferential payroll tax scheme became a state monopoly; the previous preferential vouchers were replaced by the Erzsébet voucher with a maximum amount of HUF 5,000 per month per recipient, significantly lower than the former upper threshold of HUF 18 thousand. (An additional budget of HUF 150 thousand for hot meals is ensured by the SZÉP Card, introduced this year). Vouchers issued by other businesses are no longer under the preferential tax scheme and are taxed at 51.17%.

Figure 4.20

Tax burdens on wages and the Erzsébet voucher, 2012



Source: Étkezési Utalvány Forgalmazói Egyesülés.

This year, as a result of the cut of the maximum allowance amount and the small number of recipient places at present, food vouchers play a smaller role and have a smaller weight in consumption and retail trade, exerting a negative impact on employees and employers as well as the economy.

[17] *Source*: Website of Étkezési Utalvány Forgalmazói Egyesülés (EUFE).

[18] *Source*: Website of c1 cafeteria. The survey has been taken based on the decalarations of non-wage benefits of nearly 30 thousand employees registered in the system of the company. There are small, medium-sized and large companies from Budapest and the countryside as well and a number of institutions in the non-representative sample.

Tourism, catering

Based on the report of the World Tourism Organization (UNWTO), the UN body for tourism promotion and development, covering 150 countries[19], tourism saw a favourable change in the overwhelming majority of the observed countries in 2011. 125 countries had an increase in the number of foreign visitors, out of which 52 saw a double-digit growth. According to this estimate, the number of international tourists worldwide increased by 4.4% year on year to 980 million, while in Europe, as the second best-performing region, a 5.8% rise was measured. Based on Eurostat data, accommodation establishments in the 27 EU member states hit a combined record at over 1.6 billion tourism nights. In 2011, European residents made fewer and shorter domestic trips as well as more and longer international ones. The positive tendency in Europe in 2011 seemed to be slowing down in the second half of the year, which could be regarded as a result of the euro crisis. In addition to an improvement in international travel propensity, Hungarian tourism was influenced by other factors, e.g. by forint depreciation and increasing fuel prices.

Booming international and slumping Hungarian arrivals

After the downturn in 2010, the number of arrivals of foreign visitors in Hungary increased by 3.5% in 2011. So the number of **foreign visitors** was over 41 million, while the total length of stay, proportionately increasing with the rise in arrival figures, approximated 100 million days. As a result of the geographical location of Hungary and the significant number of the neighbouring countries, most visitors come from the neighbouring countries every year; in addition to that, out of the non-neighbouring countries, Germany also can be regarded, mainly considering touristic motivation, as an important source country. German visitors are outstanding both in their number (3 million arrivals) and their spending (accounting for 19% of international expenditures totalling HUF 1,200 billion in Hungary).

Though from the point of view of domestic tourism overnight visitors play a more important economic role and the post-2008 period saw a slow increase in their proportion, same-day visitors, who are mainly transit and shopping visitors, still accounted for three-quarters of all visitors. Concerning the major travel purposes, transit travellers showed the sharpest growth, while a smaller rise was seen among leisure travellers and shoppers. Compared with 2010, the expenditures of foreigners saw a small rise (0.9%), but remained below the all-time high of 2009.

Due to foreigners public accommodation establishments had an improvement in arrivals. The 1.5% growth in the number of arrivals in 2011 resulted from a 6% rise in the number of **international arrivals** (while there was a 2.4% drop in the number of domestic ones), a phenomenon mainly shown in four- and five-star hotels. Presumably due to the Hungarian EU presidency four star-hotels had an above-average increase both in international (14%) and domestic (9.0%) arrivals. The number of **domestic arrivals** was 3.9 million, 2.4% lower than a year before. Domestic guests spent a total of 9.5 million nights at public accommodation establishments, resulting in a 4.3% annual drop. By hotel type, wellness hotels played an outstanding role with nearly one-fifth of hotel arrivals, and represented a double-digit growth both in arrivals and tourism nights. In their case both foreign and domestic guests had a significant increase in arrivals.

Out of the major **tourism regions**, the Balaton Region had an 8.1% fall in tourism nights, while there was a rise in the Budapest-based accommodation establishments mainly as a result of the capital centricity of foreigners. The region of Southern Great Plain showed the sharpest increase (7.8%), while Southern Transdanubia saw the steepest fall (18.5%). This latter mainly resulted from the high base of 2010, when Pécs had a major expansion in arrivals as the Cultural Capital of Europe. Foreigners preferred Budapest, Lake Balaton

[19] *Source*: UNWTO Word Tourism barometer, Volume 10, March 2012.

and Western Transdanubia, while Hungarian guests Lake Balaton, Western Transdanubia and Northern Hungary.

Fall in domestic trips, more but shorter foreign trips

A slight decline was seen in domestic **travel propensity**. The proportion of those taking part in overnight domestic trips, i.e. travel activity decreased by 0.6 percentage point, nearly two-thirds of the population did not participate in such trips last year. Visiting friends and relatives, or entertainment, recreation and sports were the main motivation for overnight travellers. Hungarian residents spent a total of 77 million days on overnight trips, with a total expenditure of nearly HUF 269 billion.

The number of outbound travellers has risen for the first time since 2008, 3.4% more people visited a foreign destination in 2011 than a year earlier. Outbound travellers had 16.6 million border crossings. Same-day outbound travellers had 11 million foreign trips, mainly with the goals of shopping, working, as well as visiting friends and relatives. Foreign overnight trips, which were typically leisure trips, accounted for less than the half of the number of same-day trips. The number of those who took part in an international overnight trip went up by 38 thousand; i.e. by 1% year on year. In contrast with the European trend, Hungarians, on average, spent less time abroad compared to the previous year. During international trips, the population spent a total of HUF 535 billion, HUF 3 billion less than in 2010.

In 2011, the state of the **accommodation** and fodd **service activities** showed a varied picture. Public accommodation establishments saw a small rise in the number of arrivals and a slight drop in that of tourism nights. Public accommodation establishments had a 3.0% rise, i.e. an almost HUF 9 billion increase in total gross revenue at current prices compared with that of 2010, along with a 2.7% growth in the accommodation and food service activities price index. Room occupancy in hotels also improved compared to 2010, a 1.9-percentage-point rise was seen in the indicator, however, it is still lower than the pre-crisis high (50.1%). In 2011, a positive employment trend continued in tourism, exceeding the pre-crisis high of 2006. Nearly 164 thousand people were employed in this section, a 9 thousand rise year on year. Multi-sector enterprises with at least five employees, which provide accommodation services, had, after a nearly 5% increase in the previous year, a small drop (0.5%) in the number of their employees, declining to a level 4 thousand lower than the all-time high of 2008. Unfavourable developments in the investments of this branch, having started in the second half of 2008, continued in 2011 with an 11% year-on-year fall.

European tourism survey

During the "Flash Eurobarometer survey"[20] of the tourist attitudes of Europeans, also conducted in 7 non-EU countries besides the 27 EU member states, based on the request of the European Commission, a total of 26,523 European residents were interviewed on their trips and travel purposes.

Responses to questions on how trips lasting for at least four days are planned highlighted that around a half of the respondents were leisure tourists in 2011, while for one-third of them the main purpose was to be with their family. Recreation as a motivation accounted for a 61% proportion among Hungarian travellers. In case of repeat trips local natural assets as well as accommodation quality were the most typical influencing factors. Arrangement via Internet has proved to be the most popular travel planning method with a 53% and a 36% share among EU and Hungarian travellers, respectively. The majority of travellers made domestic trips, three-quarters of them made car trips, and the most of them used paid accommodation establishments. Hungarian respondents

[20] *Source*: Flash Eurobarometer 334: Attitudes of Europeans Towards Tourism, Report, March 2012. European Commission.

preferred EU countries while making international trips: 32% of them made trips in the EU, and 15% of them outside the EU. The respective EU-level figures were 44% and 22%.

According to the survey, 26% of EU respondents did not make any trips in 2011. The situation was worse in Hungary; this proportion was 44% in the observed period. Both in Europe and Hungary, financial reasons played an outstanding role among the factors hindering travel (45% and 66%, respectively). About one-fifth of respondents said, already at the beginning of the year, that they were not going to make any trips in 2012, and one-third of them (EU-27: 33%, Hungary: 38%) were forced to change their travel plans.

Further decline in the state of catering

As a result of a modification in the system of vouchers as well as shrinking demand, sales in **catering** businesses continued to decline last year. A 3.7% year-on-year decrease in volume occurred in 2011. Catering businesses had total sales of HUF 698 billion, of which restaurants and bars accounted for HUF 600 billion, showing a small nominal rise, but a 2.1% drop when adjusted to price changes. The volume of turnover in canteens fell by 13%. The share of food sales of catering sales, as in the previous years, continued to rise against the other groups of goods.

Tourism in summer 2011

The June-September summer high season, which plays an outstanding role in arrivals, was favourable in most EU as well as EFTA countries in 2011. The number of tourism nights in hotels and boarding houses expanded by a year-on-year total of 35 million (4.8%) in the EU as a whole. Bulgaria (21%), Romania (18%) and Lithuania (17%) showed the steepest increases, while a decrease was seen in Malta and Italy. With a 0.6% rise Hungary was the last among the countries measuring growth. Spanish, Italian, German, French and UK establishments accounted for 71% of tourism nights. International travellers mainly preferred Spain, Italy and Greece.

In Hungary, public accommodation establishments had a total decrease of 61 thousand in summer arrivals and an over 500 thousand fall in tourism nights compared to the same period of the previous year. Favourable European tendencies exerted a small impact on inbound arrivals only and a 24-thousand increase was seen in foreign arrivals compared to the corresponding period of the previous year. However, the number of foreign tourism nights also diminished by 1.8%. In spite of this, four-star hotels had a successful season with a growth both in the number of arrivals and tourism nights (8.1% and 6.0%, respectively). On the other hand, boarding houses saw a one-quarter fall in arrivals.

Public accommodation establishments had a HUF 2,241 million year-on-year fall in sales revenue in summer 2011. The period of June–September accounted for 41.3% of the annual revenue, a 2.2-percentage-point drop compared to 2010. Holiday vouchers accounted for 6.4% of the summer sales revenue of HUF 101 billion, of which hotels (77%), mainly the four- and three-star units, accounted for a major part.

In Europe, domestic tourism was also able to show an improvement. The number of tourism nights increased by 1.8% in hotels and boarding houses. Only in Malta, Cyprus, Greece, Italy, Hungary and Slovenia did the number of domestic arrivals lessen.

Only September showed a favourable change, with an 8.4-percentage-point rise, in the summer occupancy rate of Hungarian hotels and boarding houses, however, the summer period as a whole saw a 1.4% decrease. Outside Hungary, only Switzerland had a major drop in room occupancy. Nevertheless, the average summer room occupancy rate is lower in Poland, Romania and Slovakia than in Hungary. Cyprus (91.7%), Malta (83.4%) and Spain (79.1%), and, as a non-EU country, Croatia (96.9%) presented the highest room occupancy rates.

5. Environment and energy

Environment

• Though the trend of emission of **suspended particulates** with a diameter of less than 2.5 micrometers, much more detrimental to health, is declining, a small rise was seen in transport emissions, which affect the quality of urban air. In the winter period – especially in major cities – thresholds are frequently exceeded.

• As a result of the operation of the Budapest Central Sewage Treatment Works in Csepel, in Hungary the proportion of sewage piped to a treatment plant and treated biologically increased from 40% to 50%, while the proportion of sewage subject to advanced treatment as well went up from 36% to 46%.

• Improper **soil tillage** plays the most important role in engendering soil erosion. Soil cultivation adjusted to soil attributes is to facilitate proper plant growth, to protect soil structure and to influence its biological aspects as well as its water, nutrient and air management to a favourable direction.

• In 2010, about HUF 153 billion of environmental investments were made in Hungary. In addition to this, enterprises spent HUF 219 billion as current expenditures within organization and HUF 122 billion as external service purchases on environment protection.

• In Hungary, areas under **organic farming** accounted for 2.4% of all agricultural areas in 2010, which was lower than the EU average of 4.7% in 2009. In 2011, imports accounted for 61% of the energy consumption of Hungary, while our energy production was mainly generated by the Paks nuclear power plant as well as the combustion of coal and different hydrocarbons.

Energy

• The ongoing rise in our **energy dependency** compels us to save and to utilize alternative sources of energy. In 2010, the renewable sources of energy gave 7.4% of our energy consumption; biomass accounted for the overwhelming majority of this volume.

Summary data

Denomination	2008	2009	2010
Forest area, thousand ha	1,903.4	1,912.9	1,922.1
Of which: proportion of healthy forests, based on defoliation, %	50.8	63.7	60.1
Protected areas and monuments of national significance, thousand ha	837.5	846.5	846.5
CO_2 emission (gross), kg/capita	5,597	5,029	5,132
Emission of solid particles, kg/capita	6	8	17
Wastewater piped to sewage treatment plant, million m^3	516.7	505.1	556.8
Of which: with also advanced treatment, million m^3	199.0	182.1	259.0
Generation of municipal solid waste, thousand tonnes	4,553	4,312	4,129
Environment protection investments (at current prices), billion HUF	136.5	124.3	153.0
Industrial sales of environment protection (at current prices), billion HUF	406.3	355.0	364.4
Energy use, petajoules	1,126.3	1,055.8	1,085.0
Share of natural gas and petroleum products of all energy sources	70.2	68.1	67.3

Environment

The state of the environment in Hungary is relatively favourable in an EU context. Concerning harmful emissions, a significant improvement started following the change of regime, which went on following the boom after the protracted restructuring of the industry and in spite of a rise in transport-induced pollution. In addition to the improvement in the emission balance, which was induced by output decline and economic restructuring, the relatively rapid spread of more modern technologies supposedly played a role in these favourable changes.

Air in our cities is often polluted in winter

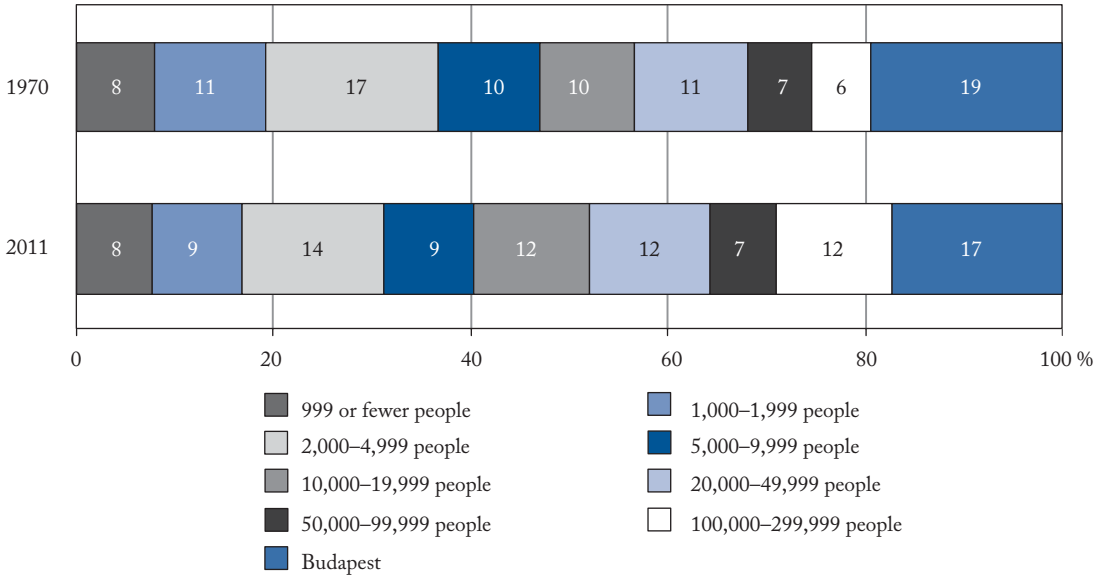
Nowadays, the emission of all major air pollutants in Hungary, e.g. sulphur-dioxide, nitrogen oxides, carbon monoxide, non-methane volatile organic compounds (NMVOC), methane, carbon dioxide, ozone depleting substances and **suspended particulates** continues to decrease or stagnate. The emission of suspended particulates was trisected compared with the period of the change of regime. The emission of "fine" particles with a diameter of less than 2.5 micrometers has also been showing a downward trend, but a small emission rise can be seen in transport, which affects urban air quality. These particulates may be absorbed from the lungs also into the blood circulation, increasing the risk of cardiovascular and respiratory diseases, especially allergy, asthma and lung cancer. Based on the data of the observation network dealing with particulates of less than 10 micronmeters (PM10), threshold exceedings are especially frequent during the winter period and in the major cities.

Urban versus country life

One hundred years ago, only 2 out of 10 people lived in urban areas, in the 1960s one in three, while nowadays more than half of the global population. 60 million people move into the cities on a yearly basis. An increasing number of studies demonstrate that the inhabitants of major cities are the most exposed to health risks. In addition to respiratory diseases (allergy, asthma), cardiovascular, cancer and mental diseases are also more frequent. The population movements of the last four decades in Hungary indicate that livable cities attract the most people.[1)]

Figure 5.1

Distribution of the Hungarian population by population size category of settlements



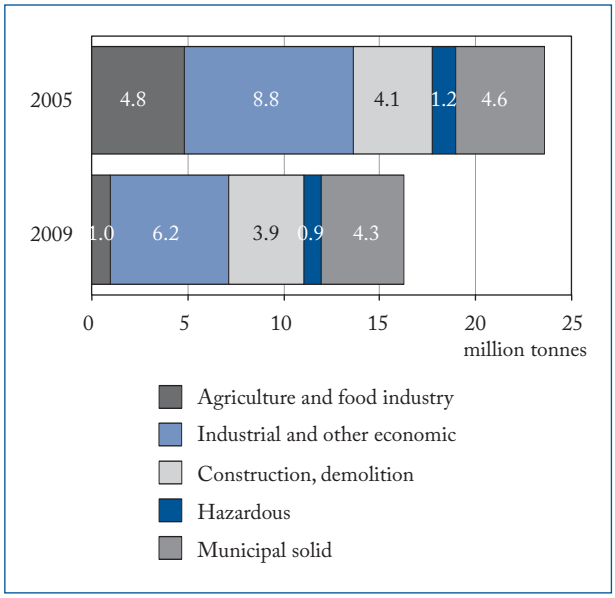
1) *Source*: WHO.

The Budapest central sewage treatment works in Csepel started to operate in August 2010 after a one-year pilot operation. Their operation elevated the proportion of waste water in Budapest discharged into the Danube, undergoing biological treatment as well, from 35% to 91%. Primarily as a result of this, in Hungary, the proportion of waste water piped to a sewage treatment plant and also biologically treated increased from 40% to 50%, while that of waste water undergoing advanced treatment[2] from 36% to 46%.

In 2009, over 16 million tonnes of municipal **solid waste** were generated in Hungary, a nearly one-third decrease compared with 2005. Agricultural and food industry wastes saw the sharpest reduction in volume (80%).

Figure 5.2

Waste generation in Hungary

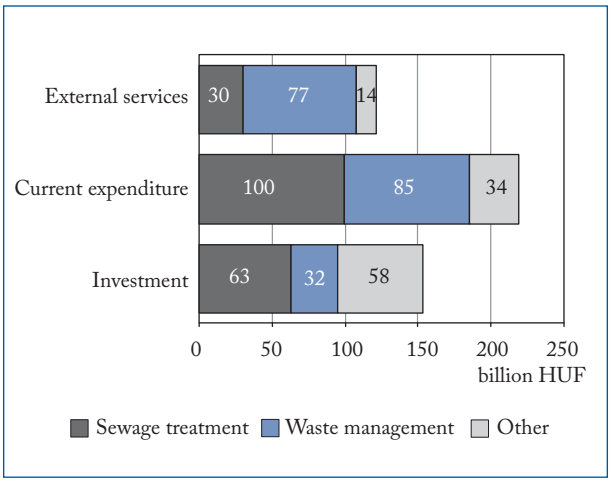


Of the 3 main types of wastes, accounting for nearly nine-tenths of wastes, one-fifth of industrial and other producer wastes and 15% of municipal wastes are recycled, while more than the half of construction and demolition wastes are used as materials. More than the half of all wastes is landfilled.

In 2010, HUF 153 billion was spent on **environmental investments** in Hungary, a one-fifth rise year on year at constant prices and a 40% fall compared with five years before. Public administration accounted for nearly the half of all investments (47%), similarly to 5 years before (50%). Concerning the investments of enterprises in other sections, own resources, EU support and state funding accounted for 67%, 14% and 11%, respectively. For the sake of environment protection, enterprises spent HUF 219 billion as current, intra-organizational expenditures and HUF 122 billion as external service purchases. Year on year, current expenditures and external service purchases lessened by 11% and 5%, respectively, at constant prices.

Figure 5.3

Environmental expenditures, 2010



Will good quality of Hungarian agricultural areas remain?

In Hungary, a significant and ongoing decrease is seen in the size of agricultural areas. Almost in every year between 2000 and 2008, relatively large agricultural areas were definitively reclassified principally as industrial and mining areas, development areas as well as road and railway areas. Since 2009, this has dropped significantly, to 2,322 hectares in 2011.

As a result of the land privatisation of the change of regime the farm structure became fragmented, however, at the same time a strong concentration process started. The fact that only a few places preserved the co-operative form at least partially

[2] Biological and/or chemical, physical process to remove mainly nitrogen and phosphorus.

(production, sales) resulted in a considerable fall in profitability; however, the financial constraints had positive outcomes as well: a significant reduction was seen in the use of fertilizers, herbicides and insecticides as well as irrigation water.

Based on the fertilizer sales data collected by the Research Institute of Agricultural Economics, there was a gradual increase in the use of fertilizers after the shock of the change of regime. In 2011, based on sales data, 77 kilograms of fertilizers were used per hectare of agricultural area.

Along with changes in crop volume, there are fluctuations in the gross nitrogen balance year by year (measure of nitrogen output taken from the area with the harvest subtracted from nitrogen input), which stood at a surplus of 6 kilogrammes per hectare in 2010. Phosphorus shows an oscillating deficit, which was 11 kilogrammes per hectare in 2011. A significant surplus in the nutrition balance is detrimental to the environment because of the risk of leaching of water-soluble plant nutrients from the soil to ground-water; however, a long-term negative balance is a threat to the sustainability of farming, since farmers do not replace nutrients detracted from the soil.

Since 2004, there has been a nearly continuous reduction in the size of manured areas and in the volume of organic fertilizers used, along with a drop in livestock population. In the economic year of 2011, 5,216 thousand tonnes of organic fertilizers were used on 292 thousand hectares of manured farmland.

Environment-friendly **soil tillage** aims to facilitate proper plant growth, to protect soil structure and to influence its biological aspects as well as its water, nutrient and air management to a favourable direction. Improper soil tillage plays the most important role in the process of soil erosion. Based on agricultural survey data of 2010, traditional cultivation methods accounted for 88% of all reported arable land areas, while on 11% minimum tillage was implemented; there was no soil tillage but only direct sowing in case of 1% of all arable land areas.

Organic farming is an EU law-based production method placing a great emphasis on environment protection, and within that to the protection of soils, surface and subsoil waters, the promotion of biodiversity and food safety. In Hungary, organic farming accounted for 2.4% of all agricultural areas in 2010, lower than the respective EU average of 4.7% in 2009. Organic farming areas had an over 10% share in 4 EU member states (Austria: 19%, Sweden: 13%, Estonia and Czech Republic: 11% each).

There were great differences in terms of demand for these products, e.g. there is a significantly higher demand in Western Europe than in Hungary. Only a few per cent of Hungarians buy organic food on a weekly basis. However, organic products are hopefully to have an increasing demand due to rising consumer consciousness and increasing considerations for environmental aspects. The future development potential of organic farmlands is determined by the size of transition areas, since organic food can be produced only on areas which underwent a two to three-year transition period. In 2010, transition areas and certified organic farmlands accounted for 24% and 76%, respectively, of all organic farmlands.

Energy

Our energy dependency has risen since the turn of the millennium

The small fluctuation in the energy use of Hungary following the turn of the millennium can be mainly attributed to weather factors. The energy use of 913 petajoules in 2011[3)] was 1% more than a year before, which resulted, on the one hand, from more unfavourable weather during the heating season than a year earlier and, on the other hand, from a rise in the energy demand of certain manufacturing subsections. A 0.7% decrease was seen in the relative energy demand of the economy along with a 1.7% rise in GDP. The respective share of production and imports changed from 42% and 58% in 2000 to 39% and 61% in 2011, so there was a rise in our **energy dependency**, which is still higher than the EU average.

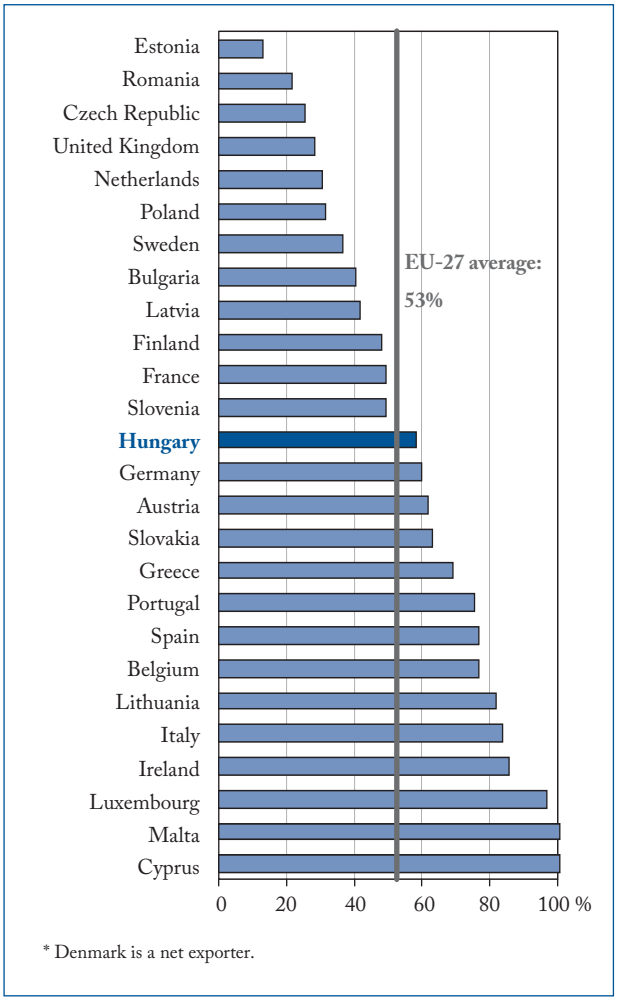
In 2011, domestic production accounted for 39% of the energy demand of our country; the remaining part was covered by imports. Our **energy production**

[3)] Data refer to January-November 2011.

was mainly generated by the Paks nuclear power plant (38%) as well as the combustion of coal (16%) and various hydrocarbons (27%). Natural gas, petroleum and petroleum products constituted nine-tenths of imported energy sources. Natural gas, petroleum and nuclear electricity accounted for 31%, 34% and 15% of the total energy supply (own production plus imports), respectively.

Figure 5.4

Energy dependency of the EU and its member states, 2010*
(share of net imports of gross inland consumption)



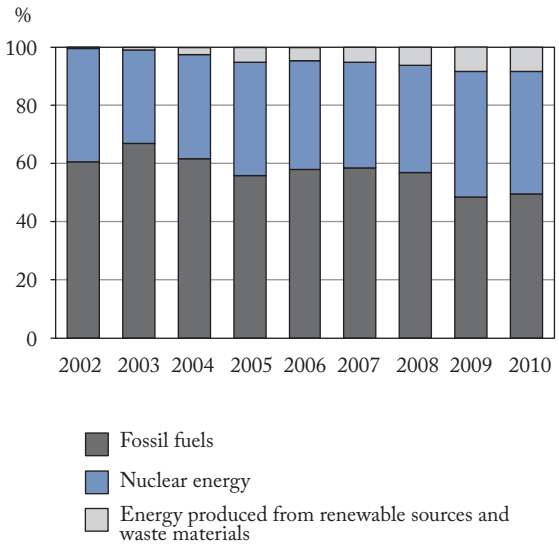
* Denmark is a net exporter.

National electricity production is rising continuously; in 2010 it was 4.1% higher year on year. Combustion of fossil fuels, mainly natural gas and coal, accounted for nearly the half of this energy, while nuclear energy had a 42% share.

Nuclear energy and gas, which have a dominant share of over 70% in our domestic electricity production, account for 17% each in the Central and Eastern European region. 14 of the 27 EU member states had a nuclear power station. The net installed capacity of 143 nuclear reactors in operation provide 13% of energy use in the EU. Nuclear energy plays a significant role in the electricity production of France (75%), Belgium (50%), Sweden (39%) and Slovenia (34%). Hungary has 4 nuclear reactors in Paks.

Figure 5.5

Distribution of gross electricity production by energy source



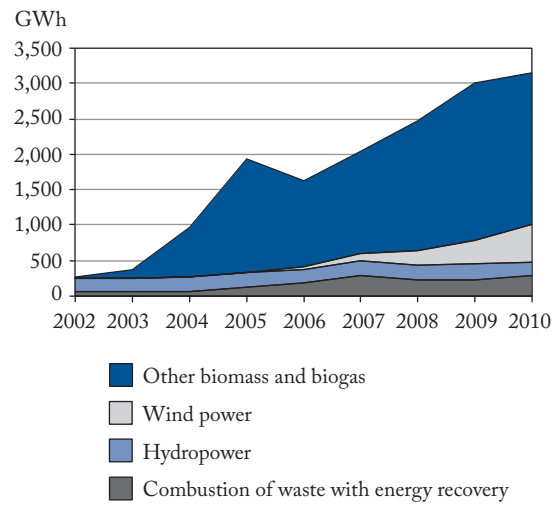
Source: 'Energy Centre' Energy Efficiency, Environment and Energy Information Agency Nonprofit Company.

Our energy dependency may improve with the exploitation of renewable energy sources

From the source side oil supplies, from the emission side the climate change are the most likely barriers to **energy consumption**. As a result of this, renewable energy sources became an integral part of energy, agricultural and environmental policies. According to the EU objectives the proportion of these should reach 20% by 2020. The EU directive (2009/28/EC) set a 13% proportion as a target for Hungary, from which we implemented 7.4% by 2010.

Figure 5.6

Volume of electricty produced from renewable sources and waste materials by energy source



Source: 'Energy Centre' Energy Efficiency, Environment and Energy Information Agency Nonprofit Company.

The use of **alternative energy sources** is much more widespread in the majority of EU member states and not only where water energy plays a determining role due to their natural attributes (Sweden: 44%, Finland: 31% and Austria: 29%). Their use is also intensive in the Baltic States (Latvia: 30%, Estonia: 19% and Lithuania: 15%) as well as in Denmark and Germany (18% each).

In Hungary, biomass and geothermic energy have a great significance; other renewable sources play a significantly lesser role. Domestic biomass assets had an estimated total of 350–360 million tonnes, one-tenth of which is used for energetics purposes, accounting for almost 80% of our renewable energy production. Firewood, which constitutes a significant part of the biomass, is mainly used for heat production and, to a lesser extent, for electricity generation. It can also be utilised as biogas, which can be used for heating as well as electricity and energy production, while after depriving it from pollutants, as biodiesel, it can be utilised as fuel. The exploitation of the huge Hungarian **geothermal** assets is mainly just an opportunity. **Water, wind and solar energy** play only a minor role at present in the domestic energy production. Renewable energy sources accounted for 18% of the Hungarian energy production and for 7.4% of the energy use. The Subcommittee of Renewable Energy Resources of the Hungarian Academy of Sciences expects that the quantity awaiting to be utilized in Hungary is approximately fifty times as much as the level used at present. Certain energy sources have practically unlimited potentials (solar and wind energy); water energy and geothermic energy have a potential for a 20-fold and an 18-fold expansion, respectively, while biomass has a potential for a 5-fold growth.

Table 5.1

Summary data on the production of renewable energy, 2010

Source of energy	Volume, thousand tonnes of oil equivalent		Volume, 2000 = 100%		Distribution, %	
	Hungary	EU-27	Hungary	EU-27	Hungary	EU-27
Biomass	1,756	112,725	241	190	91.4	67.6
Hydroenergy	16	31,492	107	104	0.8	18.9
Geothermic energy	99	5,881	115	125	5.2	3.5
Wind energy	46	12,817	–	670	2.4	7.7
Solar energy	5	3,686	–	857	0.3	2.2
Total	**1,922**	**166,647**	**232**	**172**	**100.0**	**100.0**

Who is to be fed, humans or machines? Arguments for and against biomass[4)]

Until the 17th century, only biomass had been used for heating. One of the earliest biomasses was wood, mainly used for burning, while various animal and vegetable oils were used for lighting. From the industrial revolution coal, since the second half of the 20th century petroleum and natural gas have been the most important energy sources. However, during the last decades, it has become clear that mankind has to find renewable energy sources (e.g. solar, wind, biomass, geothermic and tidal energy), which are reproduced continuously.

Table 5.2

Global gross electricity production from renewable resources, 2009

(kWh)

Energy source	Energy production
Household waste	58,152
Industrial waste	12,698
Biomass	217,263
Geothermic energy	66,672
Solar energy	20,997
Hydro energy	3,328,627
Tide, wave and ocean energy	530
Wind energy	273,153

Source: International Energy Agency (IEA).

Hydroenergy accounts for the major part (84%) of the global renewable energy production, followed by wind (7%) and biomass energy (5.5%). In Hungary, this latter one is the most important production asset. Researches on biomass were started at the end of the 1970s, after the second oil shock. However, concerning sustainability, it has a contradictory reputation. Its use is neutral in respect of carbon dioxide and facilitates to meet the Kyoto goals. Its supporters argue that agricultural overproduction, which is a problem in Europe and in Hungary as well, should be reduced by increasing the share of biomass production. Many think that biomass energy production is an important tool in the emergence of the third world. According to its opponents this has simple spatial limitations and it is supported by very few arguments concerning sustainability as well. They doubt that these monocultures will not result in an aggravated environmental burden and worse biodiversity indicators. Only indigenous species may be accepted in this production, however, even so, production technology may result in ecological damage. Many doubt that the utilization of land this way might be disadvantageous for certain social groups.

[4)] *Source*: dr. Gyulai Iván: A biomassza-dilemma (The Biomass dilemma), 2010, Magyar Természetvédők Szövetsége (National Society of Conservationists – Friends of the Earth Hungary), 2010, 4th revised edition, Budapest.

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