



HUNGARY



2003



HUNGARIAN CENTRAL STATISTICAL OFFICE, 2004

© Hungarian Central Statistical Office, 2004

ISSN 1417–7722

Original title of the volume: "Magyarország, 2003" (in Hungarian)

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Longer time series looking back to the late eighties can be found in the volume entitled
"Hungary, 1990–2001 (Social and economic trends in the first 12 years of the Republic of Hungary)",

Központi Statisztikai Hivatal, Budapest, 2003.

Publisher: Dr. Pukli Péter, President of HCSO

Regisztr Kiadó és Nyomda Kft.

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Population and demographic trends

Population

There was no fundamental turn in demographic trends over the last four years. The number of marriages stagnated at a low level since 1999, the number of births, having gone below a hundred thousand in 1998, did not go back up, and the death rate, after the downward trend of a few years, once more turned upwards. Infant mortality fell below 8 per thousand for the first time in 2002. Natural population decrease remained high throughout, eased by the international migration gain.

There were fewer marriages, fewer children were born, and more people died in 2003 than the year before. The rate of natural decrease accelerated. There were 41,200 more deaths than births, up by 5000 or 14% on the year before. Some 40% of the natural decrease was offset by the positive international migration balance, so that the population on 1 January 2004 – 10,117,000 – was 25,000 lower than the year before.

The population of the European Union increased by 1,276,000 in 2003, and stood at some 381 million on 1 January 2004. Over three quarters of the increase was due to the positive international migration balance, and one quarter to natural increase.

The net migration balance was also positive in the accession countries, somewhat alleviating the natural decrease. The total population of these countries went down by some 60,000 during the year to 74 million on 1 January 2004.

The number of live births per thousand inhabitants is slightly higher in Hungary than in the accession countries, but well below that in the EU. Hungary also has a slightly higher death rate than the accession countries as a whole, the second highest after Latvia. Of the EU countries, Germany, Greece, Italy and Austria have more deaths than

births, but migration ensured that population in all EU countries increased. In 2003, of the ten accession countries, population decreased in the three Baltic states, as well as Hungary and Poland.

Demographic trends

The number of **marriages** fluctuated around a low level over the past few years period. The rise at the turn of the millennium was followed by a substantial fall, and then a slight recovery. Last year 600 more couples – some 1.5% – got married than in 2002. The longstanding trend in the age distribution of newlyweds continued. Teenage marriages have effectively ceased, and marriages among women in their early twenties have greatly declined. A modest rise is perceptible in the more "mature" age groups, women between 25 and 39 and men between 30 and 39. Postponement of marriage to later in life is continuing, and the average age of newlyweds rose.

There was some improvement in the number of **divorces** in 2003. The post-millennium increase stopped, and the courts dissolved 500 fewer marriages last year than the year before. Divorces in 2003 were again most common among 25-29 year old couples. Whereas the divorce rate among young couples has not risen in recent years, the opposite is true among couples in their thirties.

As before, more marriages ended than began. Over 79,000 marriages ended in widowhood or divorce in 2003, as against 45,400 new marriages. This is the continuation of a long term trend which has fundamentally changed the composition of the population by marital status. There is an increasing proportion of single and divorced people, and a decreasing proportion of married people.

Population in the European Union and the accession countries, 2003

	EU-15	Accession countries	Of which: Hungary
Population on 1 January 2003, thousands	379 483	74 201	10 142
Per thousand inhabitants			
live births	10.6	9.2	9.3
deaths	9.8	10.4	13.4
natural increase	0.8	-1.2	-4.1
net migration gain	2.6	0.4	1.5
actual increase	3.4	-0.8	-2.5
Population on 1 January 2004, thousands	380 759	74 141	10 117

Over-15 population by marital status, 1 January

Marital status	1980	1990	2001	2004	(%)	
					Of which	
					men	women
Single	18	20	27	29	35	24
Married	67	61	52	50	53	47
Widowed	10	11	12	12	4	18
Divorced	5	7	9	10	8	11
Total	100	100	100	100	100	100

A major factor affecting the marriage-divorce ratio and the distribution of the population by marital status has been the increase in the cohabitation rate to 9.5% from 4.3% in 1990.

In the European Union, 54% of the male and 51% of the female adult population is married, and 37% of men and 30% of women are single. 5% of men and 7% of women are divorcees. There are considerably fewer widowers (3%) than widows (13%). The decline in marriages is a feature of nearly every country in Europe, but the decline is particularly marked in Central and Eastern European countries. Of the accession countries, the lowest marriage rates are in Slovenia and Latvia, followed by Estonia and Hungary (4.5%).

There were 2.5 divorces per thousand of population in Hungary. Marriages were thus less durable than in the EU or the accession countries Slovenia, Poland, Latvia and Slovakia, but more so than in the Czech Republic, Estonia and Lithuania.

The **number of births**, having stagnated for a some years, decreased again in 2003. There were 94,700 live births in 2003, 2% or some 2100 fewer than the year before, and about the same number as in 1999. There are fewer and fewer teenage births. The greatest drop in fertility – by 7% over the year – was among 20–24 year old women. The "more mature age group" (30–39 year olds) have been producing a small but steady increase for some time, but this is failing to counterbalance the severe decrease in fertility among young people.

The rate of births by unmarried mothers increased further. The mother of nearly every third child born in 2003 was unmarried. In EU countries, this rate is slightly lower (30%), but this average conceals a wide spread (Sweden 55% and Greece 4%). The highest figures among the accession countries are in Slovenia, Latvia and Estonia (40–56%) and lowest in Cyprus (3.5%) and Poland (14.4%).

In Hungary, at last year's level of fertility, a hundred women would bring 128 children into the world during their lives, the lowest figure ever, and far short of the simple reproduction level. With the present rate of fertility, the number of children born and growing up in Hungary will be some 38% lower than among their mothers' generation.

The fertility rate in Hungary is below the middle range in European terms, and lower than the EU average, but the fourth highest among the accession countries, after Cyprus, Malta and Estonia.

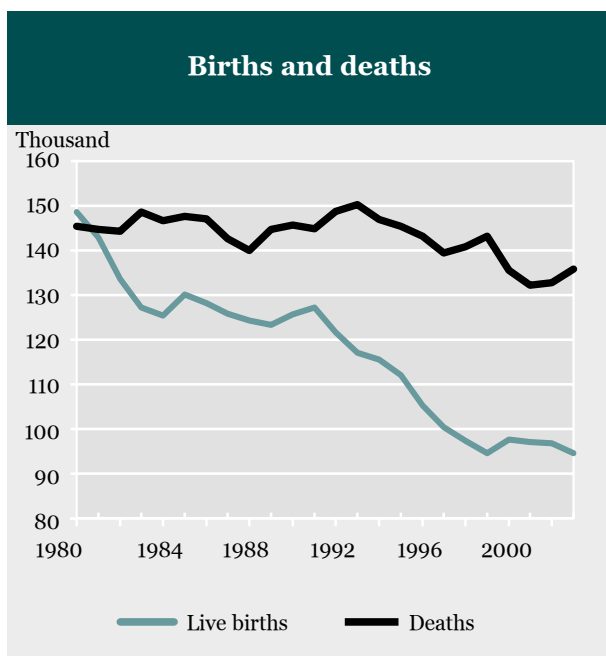
The number of **pregnancy terminations** fell again in 2003. There were 53,800 artificial abortions – 4%, i.e. 2300, fewer than the previous year. There were 57 abortions per hundred live births in 2003, a shade lower than the previous year's even with the falling number of births, and a major improvement on the early 1990s figure (when there were 72 abortions for every hundred live births).

The trend in **deaths** is not straightforward. The long downward trend halted, and in 2003, some 3000 more people died than the year before. There was a wide variation in death rate trends among

Fertility rates

Description	1949	1990	2000	2003
Live births per thousand 15–49 year old women	75.4	49.4	38.1	37.8
Total fertility rate	2.54	1.84	1.33	1.28
Gross reproduction rate	1.223	0.900	0.643	0.617

different age groups and between the sexes. In most of the under-50 age groups, mortality decreased or remained the same, and the rise was mainly confined to the over-55s of both sexes. There were increases in the numbers of deaths caused by heart and liver diseases, cancer and accidents.



Infant mortality increased slightly last year, to 7.3 per thousand. This was confined solely to newborn boys, among whom the rate of deaths increased by nearly 10%. In 2003, 6% fewer newborn girls died than the year before, so that the sex gap widened and infant mortality became 20% higher among boys than among girls.

Internal and international migration

The magnitude and direction of **internal migration** can greatly alter the changes in population

caused by births and deaths. The number of deaths exceeds that of births in every main regional unit of the country. The natural decrease that results, however, varies considerably by county and region owing to migration. Internal migration has been gradually accelerating over the last few years, and was some 2% higher than in 2003.

One of the dominant factors in migration within the country is the drift away from Budapest, mainly to the surrounding agglomeration settlements. This largely explains the large migration gain of Pest county. There were also positive migration balances in Western Transdanubia and Central Transdanubia during the year. The main destinations were Győr-Moson-Sopron and Zala counties. Of the source regions, the highest migration losses were from Northern Great Plain and Northern Hungary. The highest internal migration losses were in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties. Budapest has the peculiarity that its migration loss is even higher than its natural decrease, giving it the fastest-declining population of all, although this trend slowed somewhat last year. Other cities and towns also show a negative internal migration balance in recent years, against a gain for villages that amounted to 17-18,000 in both 2002 and 2003.

There were 130,000 foreigners living permanently in Hungary with residence permits on 1 January 2004. This was some 14,500 or 12% more than the year before. The dominant proportion was from Europe, particularly Romania, Ukraine, the Yugoslavian successor states and Germany. The age composition of immigrants is lower than the native population. 25-49 year olds were in the majority for both sexes, 57% for men and 46% for women.

The direction of international migration is less concentrated, more evenly, more spread out among the regions of the country, than internal migration. In some areas, international migration alleviates the losses from natural decrease and emigration.

Rate of permanent internal migration, 2003

					(thousand)
To \ From	Budapest	Other towns	Villages	Total	
Budapest	—	14	9	23	
Other towns	16	39	46	101	
Villages	18	54	41	113	
Total	34	107	96	237	

Education and science

Education

The population has become more highly educated over the last decade. The rate of secondary and higher qualifications has increased, and the proportion of people with only 8 grades of primary education or less has decreased. The improvement is primarily the product of demographic exchange.

By international comparison of the proportion of the 25–64 year old population educated to at least secondary level, Hungary lays in tenth place among the twenty-two European OECD countries at the beginning of the 21st century, and by the proportion with higher education qualifications, in sixteenth place. In the EU in 2002, an average of 22% of 25–64 year olds had university or college qualifications, as against 14% in Hungary.

European Union states spent an average of 4.9% of their GDP on education in 2001, of which some 2% went to university and college training. In Hungary, a higher proportion of GDP (5.2%) is spent on education, but the proportion spent on higher education (1%) falls well short of the EU level. Most school education expenditure originates from local government, while the entire spending on higher education comes from central government funds. Non-governmental organisations and families are assuming an increasing role in education finance.

In the 2003/2004 school year, 2,023,000 children and young people, 85% of the 3–22 year age group, were in full time nursery, school or college education. The changes in student numbers varies by level of education and type of establishment. Over the four-year period enrolments declined in nursery and primary schools, but rose substantially in secondary schools, colleges and universities, principally owing to demographic factors.

The number of children attending **nursery schools** decreased by a further some 4000 from the previous year. Somewhat more than 327,000 are now attending nursery school. Over five and a half thousand disabled children are attending nurseries this year, three-quarters in integrated form. There are now 40,000 fewer children in nursery schools than there were in 1999/2000. 87% of 3–5 year old children attend nursery schools, and this is in line with international trends.

The accelerating decline in first year enrolments since 1997 brought down the total number of full-time **primary school students** to 910,000 in

school year 2003/2004. This included 54,000 disabled children who attend special primary schools or classes, or integrated education. State or local authority primary schools taught 95% of all primary school children and church-maintained schools 4%, the remainder schools are maintained by other organisations. Two-fifths of students stayed for afternoon school, and the proportion of those taking school meals started to rise again (over 60%). 95% of children reaching school leaving age in 2003 had completed primary school, but some six thousand left education with qualifications equivalent to less than 8 primary years. 117,000 eighth-year students completed their primary studies in 2003 and nearly all of them went on to secondary education.

The number of students in **secondary education** has been rising steadily despite the fall in the number of 14–18 year olds, and reached 570,000 by school year 2003/2004. This was 10% more than 1999/2000, and 2% higher than the previous year. The breakdown by type of school reflects the changes in the structure of training in recent years and the rising demand for vocational training. The shift to secondary education leading to the school leaving certificate stopped for the first time in many years, and the number in vocational schools is slowly increasing. 43% now attend vocational secondary schools (*szakközépiskola*), 34% grammar schools (*gimnázium*) and 23% trade schools (*szakiskola*) that do not award the school leaving certificate. These proportions were practically unchanged from the previous school year. The number of students in the vocational training years of schools providing vocational training (trade and vocational schools) is 133,000, 5% higher than a year ago.

Over 70,000 students gained school leaving certificates in full-time education in 2003, less than half of them in grammar schools. 28,000 passed vocational examinations in trade schools and 26,000 in vocational schools.

With the expansion of places and the introduction of fee-paying forms of education, more students are going on to higher education after leaving school. The proportion of applicants admitted to higher education, from only 36% in 1990, went up to 54% in 1999 and over 60% in 2003. As in previous years, there was above-average oversubscription for police, military, arts, physical education and law subjects. In first-choice subjects, law and economics continue to lead in university applica-

tions and management subjects in college applications.

Higher education has been considerably reorganised in recent years. As opportunities have diversified, the number of students in higher education has risen rapidly. For academic year 2003/2004, 216,000 people matriculated in full-time education of some level. This number was over a quarter higher than academic year 1999/2000, and 16% higher than the previous year. 95% were studying for first degrees at universities and colleges, and the rest were attending accredited college training, vocational postgraduate training, or PhD or DLA training.

The state finances 82% of full-time students. However, the proportions in self-financing forms of training are steadily increasing. Students in distance learning are all studying at their own expense.

The number of full-time teachers in schools rose by nearly 4500 over the previous school year to some 184,000. Of the 23,000 teachers in higher education in 2003, 70% of them were working full time, 8% part time and the rest on contracts. Despite a 7% rise in student numbers, the number of teachers in universities and colleges declined by 2% from the previous academic year.

Foreign languages are studied by 66% of students in primary and trade schools, and by all students in secondary schools.

In 2002, 125,000 language examination certificates were awarded. 38% of language examination passes were by the secondary school age group, and a further 33% by people aged 19–28. The most popular languages were English and German. Of applicants to higher education, 44% had language examination certificates.

Computers were used in education by 44% of primary schools, 71% of grammar schools and 79% of vocational schools in 2002. These figures show improvements over 1999, particularly for vocational training.

In advanced market economies, it is increasingly rare for education and training to stop on leaving school or even on gaining a vocational qualification. Technological development necessitates regular further training, and economic restructuring demands frequent change of occupation, which has given rise to the concept of lifelong learning. This is not confined to college training; it embraces all planned formal or informal learning activities aimed at gaining knowledge and skills.

In the current academic year, three thousand people are enrolled in adult education at primary

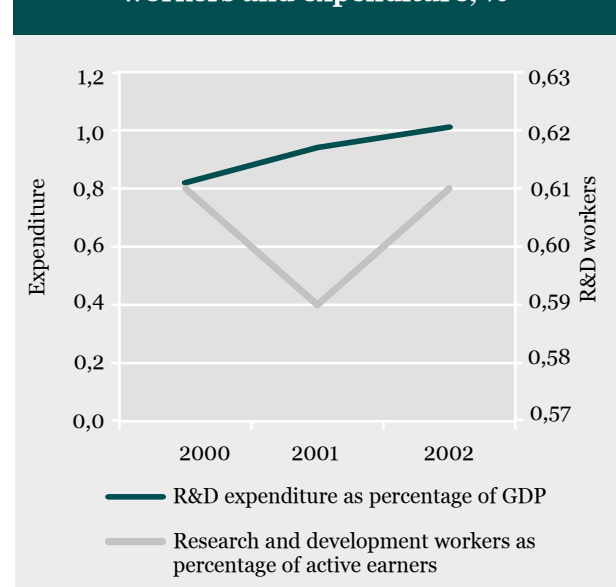
level and 97,000 at secondary level. The number in secondary-level adult education is slightly lower than in the previous academic year, at the end of which, in 2003 17,000 school leaving certificates were awarded to graduates of adult education. Evening, correspondence and distance learning courses are most popular at the higher education level, where the number of students was over 192,000 in 2003/2004, an 8% rise on the previous year.

Research, development, innovation

The last few years' favourable trends in research and development continued in 2002. The 2400 research and development facilities employed 48,700 people, or 23,700 when converted into full-time equivalents, and had total funding of 172 billion forints. The number of research and development facilities grew by some 30% from 1999, and expenditure at nominal values more than doubled, going up from 0.68 to over 1% of GDP. The number of people employed in research and development, converted to full time equivalents, rose by nearly 3% over the previous year. This figure breaks down to a 2% rise in researchers, 3.9% of assistant staff and 7.9% of other manual and non-manual workers. One third of the total worked in research institutes, 36% in higher education and 30% in businesses.

EU member states on average spend about 2% of their GDP on research and development, highest in

Proportion of research and development workers and expenditure, %



Sweden (4.3%) and Finland (3.5%), and lowest in Greece, Spain and Portugal (0.67–0.96%). In the accession countries, the average figure is under 1%. The EU average expenditure on R&D is greatly surpassed in the USA and Japan, where it is equivalent to 2.8–3% of GDP.

The proportion of high technology in EU exports and imports is some 20–21%. The equivalent figures are 10 and 14% in the accession countries. Of the EU countries, high tech trade is strongest in Ireland, accounting for 41% of exports and 39% of imports, and weakest in Greece (6 and 11%). High tech products constitute similar proportions of Hungarian exports and imports as the EU averages.

Research and development in Hungary since 1999 has risen fastest in the central government sector. Expenditure increased by over fifty per cent, and the number of research facilities also grew at an above-average rate. The outstanding rise in the enterprise sector slightly faltered in 2002, and although the growth was faster in terms of employees, the rise of expenditure was lower.

Relative to the total, central government funding for research and development activity rose and private sector funding fell. In 2002, 59% of expenditure was financed by central government, and 30% by companies, five percentage points lower than in 2001. Between 1999 and 2002, while the private sector R&D decreased by 9 percentage points, funding from international sources nearly doubled, to 10.4%.

The larger part of expenditure (63%) in 2002 went to scientific research, a relative increase on the year before. Applied research went up by 39.5%, and thus greatly increased its share. The rate of increase in experimental development expenditure was below average, and its share of the total declined by more than 3 percentage points.

There was little change in the regional distribution of R&D activity. Central Hungary slightly extended its advantage, and Northern Hungary slightly closed the gap between it and the other regions.

Innovation – the introduction of new or substantially upgraded products, or at least attempts at improvement¹ – was much more widespread among manufacturing (29%) than service companies (12%).

In the chemicals industry, the rate of innovative companies was twice the manufacturing average, and it was above 45% in engineering and in manufacture of electrical and optical equipment.

In general, activity was highest (43%) in companies employing more than five hundred, but in some sectors – food industry and other services – it was smaller companies (employing 250–499 people) that took the lead.

Of the incentives to innovation, increased market share was considered most important by three-quarters of companies. Similar significance was attached to improving quality, but cost reduction and capacity increase counted for much less in developmental activities.

¹ In 1999–2001.

Labour market trends

Changes occurring in the employment situation in 2003 – similarly to the previous years – were of small extent. As a result, the number of employees increased by 110,000 over the last four years, and the number of unemployed decreased by 40,000.

Labour force survey figures show that there were 4,166,000 economically active people in 2003. Of these,

- 3,922,000 were employed and
- 245,000 unemployed.

Of the 15–74 population, 53.8% were economically active (employed or unemployed), a rise on recent years, but a low proportion by international comparison. The number of the economically inactive population slightly decreased in 2003, to 3,579,000.

The age distribution of employees changed. The number of 15–24 year old employees fell by 30% in the last four years. Young people are entering the labour market later and later, mostly because of the increased time spent in education, but partly because of difficulties in finding jobs. There was a substantial rise in the number of older employees. The gradual rise in the retirement age (men qualified as being of working age up to 61 and women up to 58 in 2003) caused employment in the 55–59 year age group to rise considerably. Between 2000 and 2003, the number of employees aged 55–59

grew by 57% (nearly 100,000). This included 64,000 more women and 35,000 more men. In the 50–64 age group, the number of employees rose by 200,000, or 32%.

Half of the 15–74 population (50.6%) were employed. In the 15–64 age group normally used for comparison in the European Union, the employment rate was 57%. Member states generally achieve higher levels of employment, largely through the widespread practice of part-time employment. In some EU countries (Sweden, the Netherlands, Denmark), employment rates are as high as 70–75%. Hungary's level of employment is similar to that in Italy, Greece and Spain. The EU average is over 64%

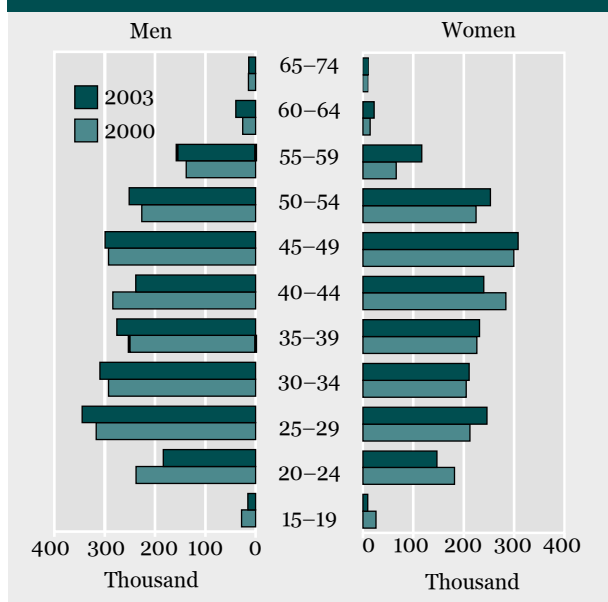
The distribution of employees by sex changed little over the recent years: 54% were men and 46% women.

In course of the past years the number and share of agricultural employees decreased invariably. The number of agricultural workers declined by 60,000, or 22%, over the recent four years. In the industrial sector, manufacturing, mining and electricity lost 40,000 workers (4%), but construction gained 19%. There were more jobs in the majority of the service sectors, especially in real estate, renting and business activities (46%). In two service sectors (transport, post and telecommunications, and financial intermediation) there were slightly fewer workers in 2003 than years before.

87% of people working were employees in 2003, a similar proportion to most European Union member states, and somewhat higher than in previous years. Sole entrepreneurs and partnerships accounted for a steady 13% of the total over the last 2–3 years. The number of assisting family members was 21,000 or 0.5% in 2003, having been declining since 1999.

In 2003, 2,753,000 people were employed by companies employing at least 5 people and by budgetary institutions. Similarly to the total number of people in work, the number of employees also rose during the past years, by 61,000. The larger part of the increase (88%) was due to part-time employees, but their number remains modest in both absolute and relative terms – 190,000 and 6.9%. 68% of employees worked in companies, 30% in the budgetary sector and the remaining 2% in non-profit organisations. 56% of employees were classified as manual. White-collar (non-manual)

Distribution of employees by sex and age



workers were more prevalent in the government sector and manual workers in the enterprise sector (over two-thirds in each case).

The falling trend in the number of unemployed stopped in 2002, and there was a slight rise in 2003. The 5.9% unemployment rate was one tenth of a point higher than in the previous year and two tenths higher than in 2001. This is lower than the European Union average (8%), and also lower than the figure in most accession countries.

The gap between male and female unemployment narrowed in 2003. At 5.6%, female unemployment was higher than in 2002, when it was 5.4%, whereas male unemployment stayed level at 6.1%.

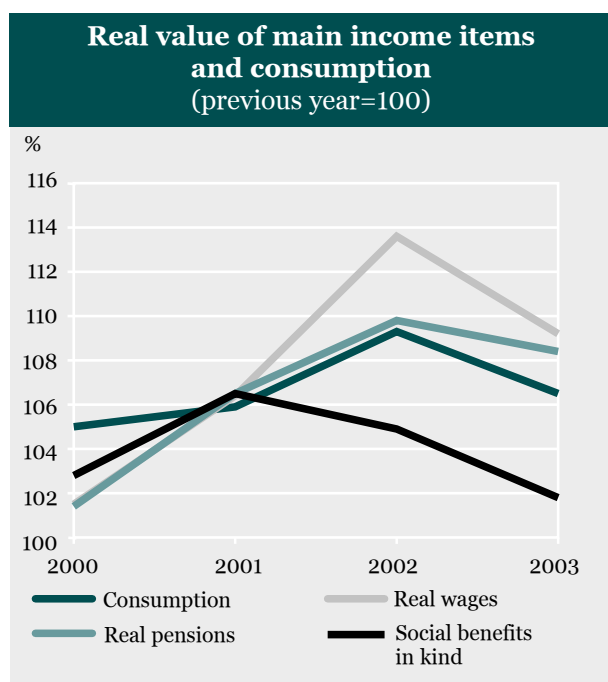
Unemployment among the youngest age group, 15-24, rose from 12.6% in 2002 to 13.4% in 2003. A new phenomenon is unemployment among new graduates.

The downward trend in the number of long-term unemployed continued – 103,000 people had been seeking work for one year or longer last year. The long-term unemployment share was 42.5%, against 45% the year before.

The rate of employment was highest in Central Transdanubia, where it was 55.3%, and only slightly lower than this in the Central Hungary and Western Transdanubia regions. The lowest figure was in Northern Hungary, where it was 45%. In the last four years, the difference between regions with the highest and lowest rates of employment has decreased. Unemployment has followed a similar trend. The highest unemployment rate was measured in Northern Hungary (9.7%), but this represented a slight improvement on the figure of four years previously. The lowest rate was 4%, in Central Hungary. The differences narrowed, but there was no significant change in the ranking of the regions. Central Hungary, Central Transdanubia and Western Transdanubia were in the best position in terms of both employment and unemployment in 2003. Northern Hungary still has the lowest employment and highest unemployment. By contrast, the Northern Great Plain region made considerable progress in both respects compared to 1999. The same is not true of Southern Great Plain, where employment was lower and unemployment higher than in 1999 and the intervening years.

Income – consumption

The main determinants of people's standard of living – earnings, pensions and benefits in kind – rose slowly in real terms since the last third of the nineteen nineties, and at an accelerating pace thereafter. The growth slowed down in 2003, but remained strong, and above the rate of economic development. Consumption rose faster than the main income items in 2000 and 2001, but then it slowed down.



The purchasing power of earnings in 2003 was 11% higher than the pre-transition level, but the purchasing power of pensions had declined.

In international comparison, income levels are expressed in terms of GDP per capita or household income. In the accession countries, GDP per capita at purchasing power parity was 47% of the EU average, and in Hungary it was 53%. The amount of disposable income, as well as the income generated by the country, depends on the ratio of earners to maintained people, and on the country's income policy. The monthly household income per capita was some 200 in Hungary, 78% of the Greek and less than half of the Portuguese and Spanish levels. 15% of the EU population live on less than 60% of the median earnings, the relative poverty level, compared to 13% of people in the accession coun-

tries, which are of course poorer in absolute terms. On the basis of access to seven modern technical appliances,² the deprivation rate in the 15 EU countries was over half a per cent. In the accession countries, this rate is 1.4% and in Hungary, 1.37%.

Earnings

During the 2000–2003 period, earnings were greatly influenced by government measures. These included minimum salary increases of 57% in 2001 and 25% in 2002 – from 25,500 to 50,000 in two years. The principal effect of this was a relative rise – and thus some equalisation – in salaries among employees in small private companies. Professional soldiers' pay was raised by 50–70%. The government also implemented wage revision measures whereby public officials' earnings rose in two steps (in 2001 and 2003), and public employees' basic pay by 50% in September 2002.

In 2003, the nominal average gross earnings of people in full-time employment was HUF 137,200 per month. Manual workers earned HUF 91,400 and white-collar workers HUF 193,300. Earnings rose by a total of 12% on the year before, 7.8% for manual and 13.8% for white-collar workers. The rises in earnings of workers in the budgetary institutions were faster than in the private sector both compared to the year before and in the longer term. This led to budgetary sphere manual workers earning more than their private sector counterparts from 2002 onwards. White-collar average gross earnings in the budgetary institution remain lower than in the private sector, but the gap has narrowed: they were equivalent to 72% of private sector white-collar earnings in 1999 and 92% in 2003.

Earnings differences between the branches narrowed, but there were no major changes in 2003. Earning power is by far the highest in financial activities, 1.75 times the national average. This is followed by public administration, defence, social security and electricity. Similarly to 2002, the lowest earnings are found in hotels and restaurants, agriculture, and manufacture of textiles, textile products, leather products and footwear. In the latter branch, workers' average earnings were less than two-thirds of the national average. In the other two sectors, earnings were 72–74% of the national average.

² TV, video, dishwasher, microwave oven, car/van, personal computer.

Work income includes, in addition to monthly earnings, other monetary income and benefits in kind (meals and accommodation contributions, reimbursement of travel to work expenses, bonuses, etc.). In the Hungarian national economy average monthly work income in 2003 was HUF 142,000, HUF 5600 more than gross earnings. The "other work income rate" was 3.9%, about the same as the previous year, and somewhat less than in 1999.

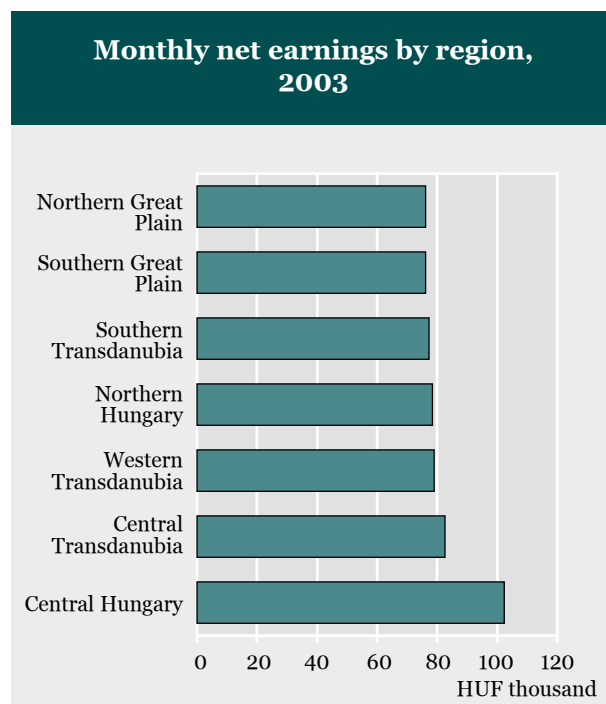
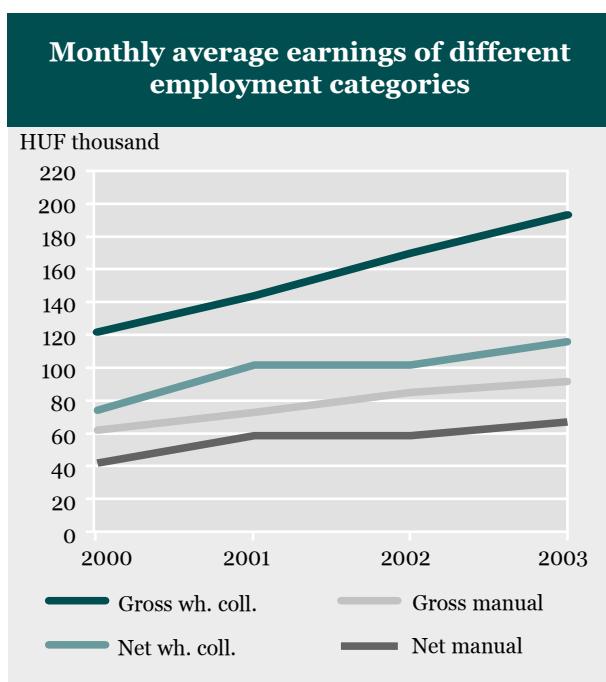
Gross and net earnings of employees as a whole grew by almost the same extent in the last four years - 78 and 77 % respectively. Of these, the rate of rise in net earnings among manual and white-collar workers differed only slightly. By contrast, the gross earnings of white collar-workers grew considerably more than manual workers. This is because the tax and contribution content of white-collar workers' earnings, which was above average four years ago, grew further, to over 40% in 2003. This figure went downwards for manual workers, to 27%.

Net earnings as a percentage of gross earnings		
	2000	2003
Manual workers	68	73
White-collar workers	61	60
Total	63	65

In 2003, net nominal average earnings were HUF 88,750. White-collar earnings were HUF 115,700 and manual earnings HUF 66,700. The difference between the two categories remained unchanged from 2002. Net earnings rose by 14.3% on average.

Of Hungary's seven planning regions, earnings were highest in Central Hungary in 2003, as they had been in 2002. Net average earnings were HUF 102,400, 15% above the national average. (In 2002, the difference was 18%.) The lowest average net earnings (HUF 76,200) were in the Northern Great Plain region, and only HUF 58 higher in Southern Great Plain. Following the trend of recent years, wages growth was faster in lower-earnings regions: 17% in the two northern regions, 16-18% in the two southern regions and 12-15% elsewhere. Wages grew least in the highest-earning Central Hungary region. As a result, the superiority of the highest-earning region over the lowest narrowed from 46 to 34% over three years.

The 14.3% national rise in net earnings, as consumer prices went up by 4.7%, corresponded to a 9.2% increase in the real value of earnings. This was lower than the 13.6% of the year before, but a real wage rise of comparable magnitude had not been seen for several decades before that. Similar to the previous year, the 2003 real wage increase was several times GDP growth (2.9%). Over the past four year period, GDP went up by 16% and real wages by 34% (and 24% in the second two years).



Social income

To alleviate differences in income, counteract social tensions, assist people in need, support child care and ensure decent living in old age, governments provide benefits in cash and in kind on top of work income.

In the European Union, the member states spent 2.3 trillion on social benefits in 2001, over a quarter of GDP. The corresponding figure in Hungary was less than a fifth of GDP. In the EU, on average 41% of social expenditure goes on old-age benefits, 28% to expenses related to illness, 8% each to help for the disabled, alleviating the burden of child care and help for families, 6% for unemployment, and the rest for people without support, for housing, and to deal with forms of social exclusion not covered under other headings. The spread around the average is very high, depending on countries' demographic make-up and their social policies. In Italy, for example, old age benefits accounted for over 50%, and were higher than average in Greece, Spain and the United Kingdom, but less than 20% in Europe's most youthful country, Ireland. The proportions spent on old age benefits and families grew slightly in the EU between 1993 and 2001, and the proportion spent on unemployment decreased.

In Hungary, **pensions** and pension-like benefits accounted for one fifth of social expenditure, and constitute the basic source of living for nearly a

third of the population. 3,056,000 people live on pensions and pension-like benefits in Hungary, but their number has been steadily decreasing and is now 85,000 lower than in 1998. It is notable that the number of new pension awards in 2003, 173,000, was the highest figure in the past four-year period, which implies that there has been a major demographic shift among people receiving different kinds of benefits.

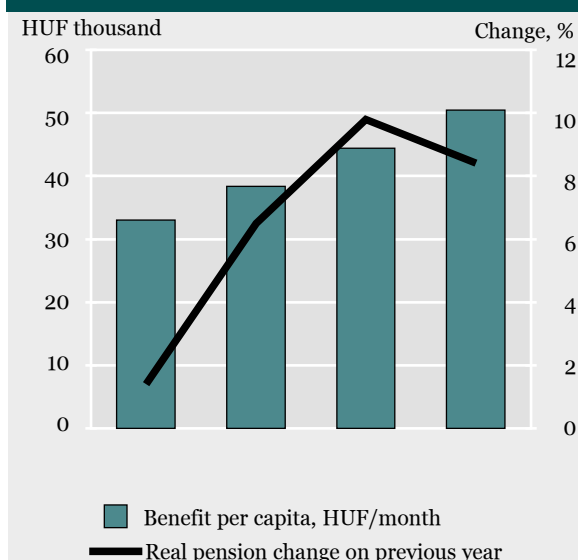
Pensions and pension-like benefits divide among old-age (53%), disability or reduced working ability (34%) and the remainder widows' or other pensions. Orphan allowance accounted for 7% of the total.

HUF 1.9 trillion was spent on pensions and pension-like benefits in 2003. The nominal value increased by 66% from 1999, but it remained about the same proportion of GDP. In the EU, this proportion is over 12%. The monthly amount of benefit per capita was HUF 50,400 in 2003, and its purchasing power had risen nearly 30% on 1999 and 8.4% on the previous year.

Family and child benefits, in cash and in kind, totalled some 2.5% of GDP in 2001. This proportion is 2.1% in the EU. The income tax benefit for children introduced in 1999 also serves to reduce the burden on people caring for children.

In January 2004, 1.3 million families received family allowance, for 2.1 million children. (This benefit has changed several times in recent years in terms of both name and scope of entitlement.) Child care benefit was paid for 164,000 children. Child care fee was received by some 82,000 people. The real-terms decline in these benefits stopped in

Pension per capita



Monthly average child cash benefits

	Forint	Real value 1999 = 100.0
Family allowance, per family		
2000	8 496	91.4
2001	8 617	84.9
2002	10 034	93.8
2003	10 415	93.1
Child care benefit, per capita		
2000	16 602	99.9
2001	17 820	98.2
2002	19 748	103.3
2003	22 145	110.7
Child care fee, per capita ^{a)}		
2000	31 448	100.0
2001	39 274	114.4
2002	44 901	124.2
2003	48 742	128.7

a) Real value: 2000=100.0.

2002, except for family allowance, and they have been rising since.

Cost of living

In the opinion of households, an average standard of living in 2003 required a monthly income of HUF 63,000 per capita, and a very good standard of living HUF 145,000 per capita. The poorest households (the lowest ten per cent of the population) estimated the very bare standard of living as being similar to their own income. This "subjective minimum" is from year to year approaching the normative minimum subsistence level calculated by HCSO.³

expenditures in Hungary than the EU average, and those on household upkeep, culture and leisure a smaller proportion. The freely disposable proportion was also lower than the EU average.

Food consumption during the 1999-2003 period was greatly influenced by the change of food prices and by rising incomes. Food prices went up slower than, or at an equal rate to, consumer prices as a whole (except in 2001), and the effects of this are manifest in the natural indicators of consumption.

Consumption of food outside the home has regained significance since the second half of the nineteen nineties, and accounted for over 10% in 2003. In the big cities, particularly among school-

Per capita amounts needed for different standards of living in the opinion of households

Level	2000	2001	2002	2003
Very bare, thousand forints	23	27	30	34
Average, thousand forints	44	50	57	63
Very good, thousand forints	100	114	127	145
Very bare, as percentage of average	53	53	53	54
Very good, as percentage of very bare	426	424	418	432
Subsistence minimum, thousand forints	26	31	34	..

Consumption, food consumption, household amenities

The volume of household current **consumption expenditure** in 2003, according to preliminary figures, was 6% more than that in 2002.⁴ Over 60% of living costs were made up of food, household upkeep and transport expenditure.

The amounts spent on food, luxury items and transport took up a larger proportion of living

age children, fast food restaurants are increasingly popular, and home delivery of food portions is more and more common. Daily delivery of one meal a day to those in need, as a social service, is provided even in the smallest villages.

Household amenities have improved. In 1999, 77% of households had fixed or mobile telephones, increasing to 90% in 2003. The proportion of households with Internet links doubled in one year, but still remained below the EU average.

32% of households with active earners had a computer in 2002.

Dishwashers, tumble dryers and DVDs are also starting to appear in Hungarian households. Of the other entertainment electronic items, colour television, CD players, videos, etc. are highly popular in Hungary: the 95% provision of colour televisions approaches the EU average of 99%. 3% of households do not buy a colour television on principle, because they do not regard it as necessary, and the rest would like one but cannot afford it. There are also a growing number of households which have more than one colour television.

Per capita consumption of some foods*

	1999	2000	2001	2002
Total meat, kg	61	70	68	72
Milk and dairy products (except butter), kg	152	161	144	143
Eggs, pcs.	274	275	284	301
Fats, kg	34	39	37	39
Flour, kg	85	89	90	82
Potatoes, kg	68	64	68	65
Sugar, kg	38	33	33	33

* On the basis of food balances.

³ Hungarian Central Statistical Office publishes an annual subsistence minimum based on the household budget survey. This is the amount that enables basic needs for a socially acceptable living to be met. In 2002, the per capita subsistence minimum was HUF 33,900.

⁴ The household budget survey sample has been reformed, and figures are of limited comparability with previous years.

Living conditions

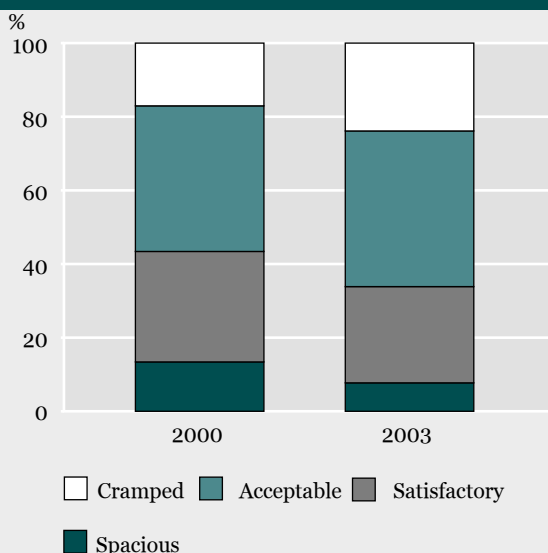
Housing

At the start of 2004, there were 4,134,000 dwellings in Hungary or 409 dwellings per thousand inhabitants, and there were 95 people per hundred rooms.

The structure of the **housing stock** has changed considerably over the last decade. The 2001 census registered 4,070,000 dwellings, of which 341,000 were unoccupied at the time of the census. The number of unoccupied dwellings has doubled since 1990, from 4 to 8% of the total. In addition, the latest census counted a further 252,000 holiday houses, of which 6500 were occupied. The total number of residential properties, including both dwellings and holiday houses, was thus more than 4,300,000 in 2001, of which 3,780,000 were occupied.

On the basis of average **housing provision**, Hungary lies between present EU member states and the accession countries. On the basis of occupation density, i.e. population per hundred rooms, Hungary's position is even better. In 2003, 12% of dwellings were overcrowded,⁵ less than several current member states. (A factor that tends to improve on both figures, of course, is the falling population.)

Distribution of households by density of dwelling occupation



In 2003, 1,270,000 members of 290,000 households, i.e. 13% of the population and 8% of households, lived in cramped dwellings. More and more people are living in satisfactory and spacious dwellings (66% of the population in 2003). The biggest change over the four year period was in the latter category, a 6.7 percentage point rise.

The quality and occupation density figures for the housing stock as a whole show continuous improvement. Upgradings and renovations of old buildings and the higher-than-average standard of newly-built dwellings is causing a rapid increase in the proportion of good quality dwellings. There is still, however, a large – if gradually diminishing – proportion of the housing stock (13-15%) which does not even meet the basic quality standards. About a quarter of dwellings date from before the war, and 4.5% are in adobe-walled buildings without foundations. 7% have no piped water and 35% no connection to a public sewer. There is no bathroom in 8% and no WC in 9% of dwellings.

Housing quality and occupation density figures

	1999	2003
Population per 100 dwellings	261	260
Population per 100 rooms	104	95
Floor area per capita, m ²	28	30
Average floor area, m ²	74	78

The volume of **housing investment** (including estimates for renovation and upgrading of old dwellings) grew by nearly 70% between 1999 and 2002. Its share of total national investment went up from 13.5 to 21.5% over the same period. Its amount approached 5% of GDP in 2002 and surpassed this figure in 2003.

The first significant change in the structure of **dwelling building** for several decades has taken place over the 4–5 years up to 2003.

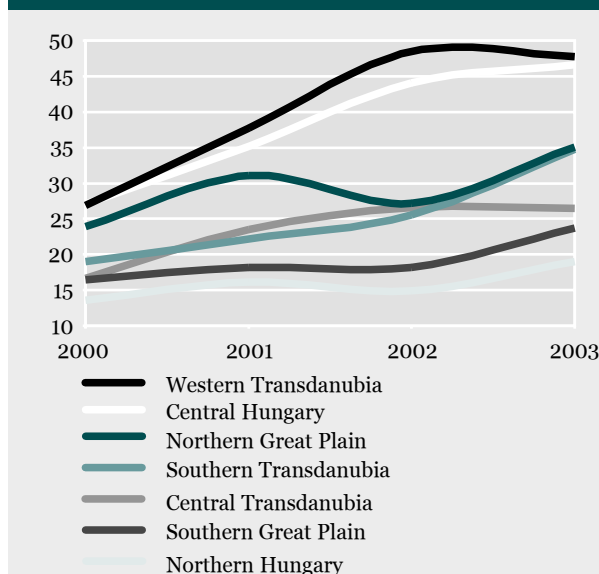
35,000 new dwellings were built in 2003, 84% more than in 1999, which marked the low point in dwelling construction. House completions per thousand of population (35) was at the top of the lowest third among EU countries, and in the top third among the accession countries.

Dwelling building activity differed among types of settlement: village house starts formed a smaller

⁵ A dwelling is generally regarded as cramped if there are more than 2 persons per room, acceptable if there are at most 2 persons, and satisfactory if there is 1. Larger dwellings are regarded as spacious.

proportion of the total (falling from 40 to 28%), and there were relatively more house starts in cities. This trend is the opposite of that in the mid-1990s, when village house starts were increasing. The regional distribution of house building is also uneven. In the Northern Hungary and Southern Great Plain regions, only half as many dwellings per ten thousand of population were built in 2003 as in Western Transdanubia or Central Hungary.

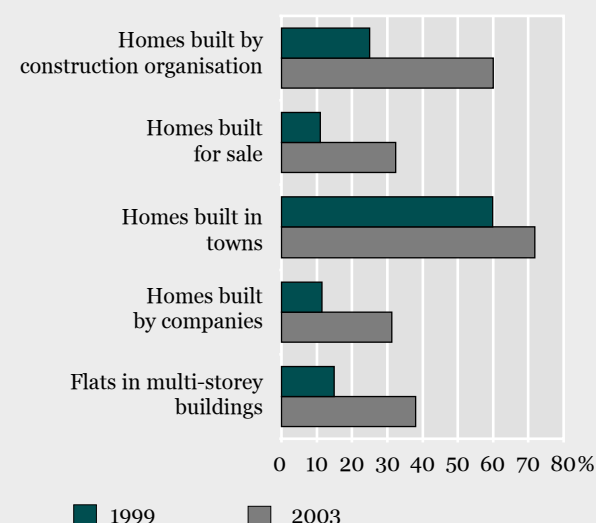
House building per ten thousand of population by region



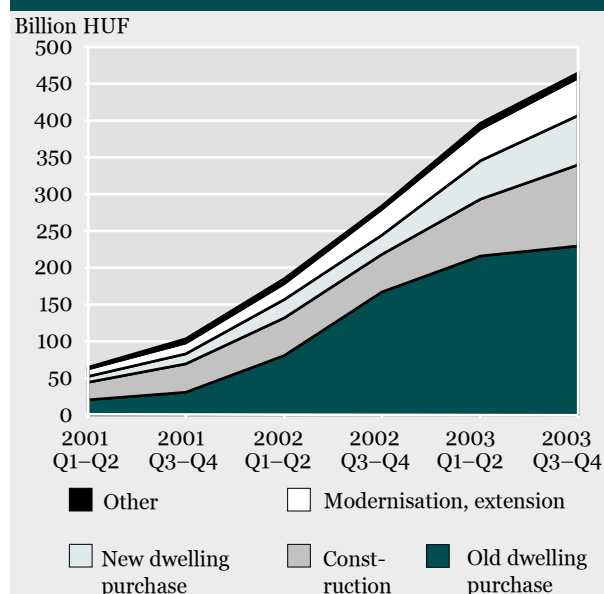
Dwellings built in recent years have in increasingly diversified composition, in line with the changing nature of developers and building contractors. The period has been marked by an upturn in urban house building, with relatively more small dwellings, typically in multi-storey, multi-flat buildings, and relatively fewer detached houses.

The rate of private building decreased steadily from 1999, and more quickly after 2000. The trend continued in 2003, when only just over 60% of new dwellings were built by private individuals, as against 85% in 1999. By contrast, commercial house building was three times higher in relative terms than it had been 5-6 years before. A modest but perceptible rise in local government house building started in 2002. The house building developer base widened considerably over just a few years. Nearly a third of completed dwellings were built by companies in 2003 (as against 11% in 1999). There was a comparable increase in dwellings built for sale. The number of dwellings

Changes in house building characteristics



Housing loans and subsidies disbursed (at current prices)



constructed by construction companies increased to nearly 60%, and private construction produced only a third of new dwellings in 2003.

On 31 December 2003, housing loans stood at HUF 1.4 trillion, of which 84% were subsidised by the state. The amount lent in the second half of 2003 was a 3.6 times the amount lent in the first half of 2001. The largest rises were in loans for

house purchase (new or old dwellings). The average loan amounts increased from HUF 1.8 million to twice that amount, and the average loan period at the end of 2003 was 12.4 years, up by 3.7 years on the beginning of 2001.

Health

One major indicator of health in any country is the average life expectancy at birth. This is considerably lower in Hungary than in the advanced regions of the world. Hungarian women had a life expectancy 6 years shorter (76) and men 8 years shorter (67) than their EU counterparts in 2000. Hungary's standardised death rate per hundred thousand inhabitants was 802 for women, 56% higher than the EU figure, and 1448 for men, 69% higher.

Hungarian living prospects also compare badly with the new accession countries. The complex indicators show Malta, Cyprus, the Czech Republic and Slovenia to have the healthiest populations among these countries. Hungarian and Latvian women have the shortest lifetimes, dying 3–4 years earlier than women in Cyprus, Malta and Slovenia. Of the male populations, it is those in the Baltic countries who have the shortest lives. Hungarian men live only three years longer, Czech men 4 years longer still, and Maltese and Cypriot men 8 years longer. The standardised death rate per hundred thousand inhabitants is over a thousand only in the Baltic

countries and Hungary, compared with 620 in Cyprus and 670 in Malta, close to the EU average.

In Hungary, a gradual improvement in the average life expectancy at birth strengthened somewhat at the turn of the millennium, and continued, if weakly, in 2002.

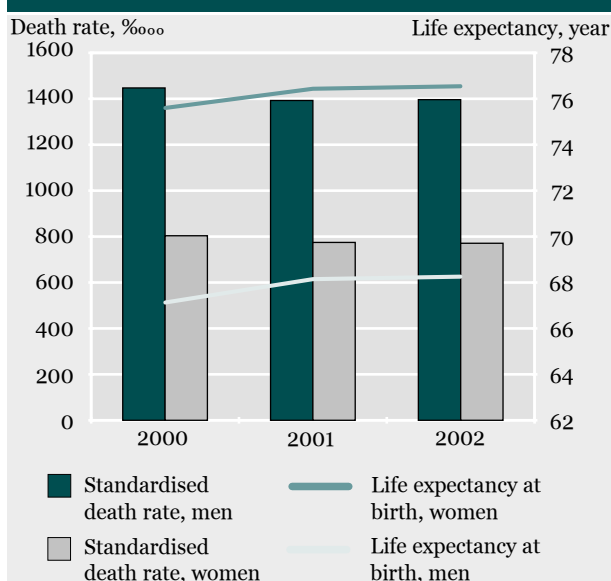
In Hungary, the best living conditions in 2002 were in towns of 50-100,000 inhabitants. These had the lowest mortality and infant mortality, and the highest life expectancies at birth for both women and men. People living in villages with populations of under 1000 were the most at risk by every indicator.

Deaths per thousand of population are 5% higher than the national average in Northern Hungary and Southern Great Plain, and 7% higher in Central Transdanubia. The biggest difference between male life expectancies among regions of the country was 2.9 years (between Northern and Central Hungary), compared to 1.1 years in the case of female life expectancies (Northern Great Plain and Western Transdanubia).

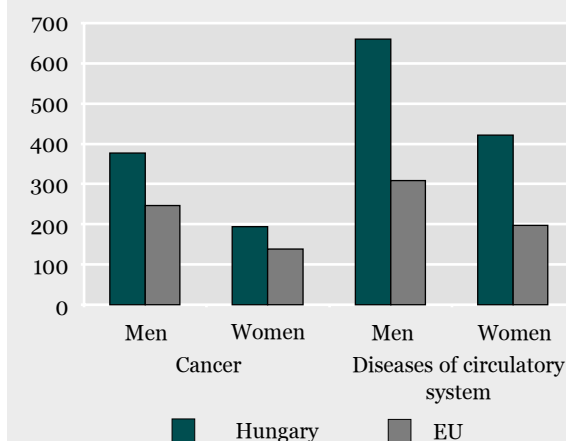
Over half of deaths (51.1%) in 2002 were caused by diseases of the circulatory system, above all heart and cerebrovascular diseases. A quarter of deaths were from cancer. There were 8% fewer deaths from circulatory disease per hundred thousand than in 1999, and 3% fewer deaths from cancer.

In 2002, **basic health care** was provided by 5100 general practitioners and 1600 general-practice paediatricians. 90% were working on a contract basis. There were 1510 inhabitants for each general practice doctor, similarly to 1999. The number of surgery and home visits was over 54.5 million for

Life expectancy in Hungary



Main causes of death in Hungary and the EU (standardised death rate per hundred thousand inhabitants)



GPs and 10 million for GP paediatricians. There were more visits per GP in villages (12,000) than in towns (9,900).

For **children up to the age of 18**, it is diseases of the blood and haematopoietic organs (predominantly anaemia), asthma, spinal lesions and eye muscle related refractory disorder that cause the most problems. The incidence of anaemia declines with age, but increases again among adolescent girls. Girls in the 14–18 age group fall ill more often than boys of the same age.

Women form the majority of **adult** visitors to GPs (53%). The most commonly recorded diseases, apart from those of the lower respiratory system and cerebrovascular diseases, are more frequent among women. The incidence per ten thousand inhabitants is lower among women only in a quarter of all diseases monitored. By contrast, the death rates are better for women in all age groups.

Among adults who visited GPs, it was diseases of the circulatory system that occurred most frequently, first place being taken by high blood pressure, with over 1.7 million cases. This was followed – among both men and women – by ischaemic heart diseases, and by spinal conditions. GPs hold 470,000 diabetes sufferers on their records.

Health visitors supplement the work of maternity doctors and GP paediatricians in care of expectant mothers and babies. About 99,000 new mothers have been registered during the last five years. In 2003, 37% of expectant mothers required special care. However, the rate of endangered pregnancies was over 50% in Northern Hungary and Szabolcs-Szatmár-Bereg county. The proportion of expectant mothers who smoke has remained at 14% for several years. One fifth of health visitors' infant-related visits (1.6 million) were to endangered babies. The number of health visitor visits to pregnant women was 40,000 less in 2003 (660,000) than in 1999 and 2000. There was a gradual increase in the rate of nutrition by healthy mother's milk for babies under four months old (70% in 2003). Outside Budapest, only 69 of every hundred babies were breast fed, against 76 in the capital.

The average number of under-16 children registered in health visitor districts was 1.7 million in 2003, of which 11.3% required special care, as against only 8% in 1999. The best situation was in Budapest (6.7%), but in Borsod-Abaúj-Zemplén county, the proportion of children at risk (21.6%) was nearly double the national average.

There were 5.8 million visits to dentists' surgeries in 1999, of which 4.5 million were adults and 1.3 million children. Dental visits increased by 1 mil-

lion to 6.8 million in 2002 (5.2 million adults and 1.6 million children). In 2001, children had twice as many permanent teeth extracted (78,500) as in 1999, but by 2002, the number of extractions fell to 62,000.

The district nursing service was set up in 1995 to provide assistance for patients in their homes under GP supervision. In terms of number of visits and number of patients, it has been expanding constantly since then. In 2002, 40,000 patients were assisted in more than 900,000 visits. 55% of these visits were for nursing, 32% general physiotherapy, 12% physical therapy, and 1% speech therapy.

With the reorganisation of the health system and changes in regulation, outpatient visit numbers increased abruptly in 1995. Specialist medical staff cared for 181 million cases in the course of 17 million working hours in 2002, implying 5.5 minutes per case. 60% of examinations were in the laboratory (with average time of half a minute per case), and 22% in some clinical speciality (14 minutes per case on average). Of the latter, the highest proportion of examinations were by physicians, followed by surgeons and gynaecologists. The number of outpatient cases increased by 21% on 1999, and the number of doctors' working hours by 6%.

Clinics carry out screenings and specialist care for patients received either on referral or their own account.

Figures for **pulmonary clinics** show a reduction in TB and an increase in non-TB lung diseases. Annual pulmonary screenings have stood at 4 million for several years. 36 of every 100 new TB cases and 33 of every 100 new lung cancer cases were detected by screening. The number of multiphase screenings has declined by 22% since 1999, and was over 430,000 in 2002. 46% of the examinations were for heart diseases, 26% for high blood pressure and 18% breast cancer. The highest number of further examinations were for the latter disease (12%).

The number of registered TB patients per hundred thousand inhabitants, although still more than twice the EU average of 12, has decreased by 28%, and the number of new TB patients by 23%, since 1999. In 2002, 3007 new incidences were registered. However, the number of non-TB registered patients increased by over 33%. Of every hundred patients, 38 suffered from hay fever, 33 from asthma and 11 from chronic bronchitis. The number of hay fever sufferers increased by 69% over the four years. There were 15,000 registered lung cancer patients in 2002, 18% more than in 1999. 6361 new patients were diagnosed in 2002, only slightly more than in the preceding years.

The almost two million visits to **dermatological and sexually transmitted disease clinics** – which care for nearly 92% of skin patients – was almost unchanged on the 1999 figure. Sexually transmitted diseases accounted for 8% of these, declined 7%. There were 26% less, 37,000, syphilis screenings, but registered syphilis patients had increased by 79% to 1136 since 1999. 47% more new syphilis patients (382) and 26% less new gonorrhoea patients (929) registered in 2002.

Between 1999 and 2002, the annual numbers of patients attending psychiatric clinics went up by 4%, registered patients by 5%, patients treated by 10%, and new patient registrations by 12%. Most of the 135,000 registered patients (65%) are women. They are primarily treated for mood disorders or neurosis, whereas the most common condition among men is schizophrenia. In psychiatric wards, 44% of patients (3800) are treated for schizophrenia or depression, but there are also 1400 sufferers of senile dementia and over a thousand alcoholics there too. Child and youth psychiatric clinics had 17,000 patients on their registers in 2002. This was 21% fewer than in 1999, and patient visits were lower by 12% and the number of new patients by 14%. By contrast, 70% more young people (1141) were referred to hospital.

Of registered patients in addictological clinics, 90% (37,000) were alcoholics and another 3700 suffered from another addiction. The number of registered alcoholics steadily decreased, by a total of 27% from 1999, in parallel with the number of deaths from alcoholic cirrhosis of the liver (17%). Two thirds of patients were middle aged – 35–54 years old – and over three quarters were men.

Estimates put the number of drug addicts at 30–50,000, and regular users at 80–100,000. About 3–400,000 have probably tried drugs. Some 100–150,000 young people consume drugs for occasional weekend entertainment. The health services only come into contact with a fraction of users, via health centre registrations, hospital admissions, and deaths. The changes in the absolute numbers treated in health establishments therefore permit no conclusions as to the extent of drug use in Hungary.

The number of drug users registered in health centres stagnated for several years, dipped in 2001, and then increased by 728 in 2002 to 12,800. The people treated are mostly users of opiates, multiple drugs, tranquilisers and cannabis. In 2002, nearly 60% of those in care were men, compared with 70% 2 years ago. The most affected are the under-30s, especially the 20–24 age group. On the basis of reg-

istered drug users per ten thousand of population, the highest rate of drug use is in Budapest and in Baranya and Csongrád counties. The number of drug-related deaths has been more or less constant for several years (276 in 2002).

In-patient care takes place in municipal or county hospitals, teaching hospitals and specialised hospitals, and involves 12,000 doctors. Hospitals with the basic specialities are accessible within 25–30 kilometres of every point in the country.

There were 81,000 hospital beds in Hungarian hospitals in 2002, 76% of them in acute and the rest in chronic wards. There were 80 working beds per ten thousand of the country's population, more than this in Budapest (132) and less than the national average in the Central Transdanubia (70), Southern Great Plain (72) and Northern Hungary (74) regions. In the acute category, the most beds are in medical, psychiatric, surgical, gynaecological and paediatric wards. Of the chronic wards, it is rehabilitation and psychiatric wards that have the most beds. The bed occupation rate in chronic wards, 86%, is 8.5 percentage points higher than in acute wards.

In 2002, 2.7 million patients were cared for in hospitals on 23 million care days. The average period of care was 9 days, which puts Hungary in the top third of European countries in terms of this figure. The average period of care in acute wards (7 days) is considerably shorter than in chronic wards (31 days).

There are 38 perinatal intensive centres in Hungary. This compares with only 26 in 1999, when 5900 babies were successfully treated. In 2002, 8800 newborn babies required intensive care, of which 430 died.

There were 19 more pharmacies (2047) in 2002 than in 1999, with 650 more workers (14,600), and 35% of the workers were qualified pharmacists. There are 50 pharmacists per hundred thousand of the Hungarian population, a low figure by EU standards. Medicine sales to the public totalled HUF 344 billion in 2002. This was a 19% rise at constant prices since 1999. The public actually paid 40% of this sum, an average of HUF 13,200 per head.

Of reportable infectious diseases, the lowest numbers of scarlet fever (2700), German measles (42), mumps (98) and tetanus (5) were reported since recording of these diseases started in Hungary. 2002 was the first year when there was not a single occurrence of measles. The most common infectious disease after chickenpox, which is largely confined to children, continued to be infectious diarrhoea, with an incidence of 39,000.

Fewer contracted meningitis caused by meningococcus: after abrupt rises in 1999 (82 cases) and 2000 (98), the number fell to 44 in 2002. There were fewer cases of hepatitis (772), but 27% more of Lyme's disease in 2002 than three years previously. 70% of hepatitis A cases occurred in Borsod-Abaúj-Zemplén county.

In 2003, 63 HIV infected persons were registered, fewer than in previous years, bringing the number of infected persons detected since 1985 to 1104. There were 26 AIDS patients in 2003, and 10 died of the disease during the year. 57% of the AIDS patients diagnosed since 1986 (257 persons) are no longer alive. In terms of newly-diagnosed AIDS patients per hundred thousand of population, Hungary (0.26) is well placed by comparison with the EU member states. The EU average in 2002 was 2.39. The rate was higher than average in Portugal (8.18), Spain (5.90), France (3.36) and Italy (3.05), and lower than average in the other countries, including Belgium (1.81), Austria (0.87), Germany (0.86), Denmark (0.76) and the Netherlands (0.28).

147,700 people were employed in human health services at the end of 2003, 73% in white collar and 27% manual jobs. In the period between 1999 and 2003, the lowest number of employees was 141,400, in 2001. The number employed in manual jobs decreased by 6% over the period, and the number in white collar jobs increased by 3%.

There were over 178,000 people working in medical care jobs in Hungary in 2002, of which 31,000 were **doctors**. 40% of doctors worked in inpatient care and 18% in specialist outpatient care.

Over half of medical care jobs were in **specialists** (97,800) in 2002, as before. 57% of specialist health workers were employed in inpatient care and 15% in outpatient care. The largest proportion of these were **nurses**. There were 50,800 **nurses**, 2100 **midwives** and 5100 **health visitors**. In terms of number of jobs, there was no major change from previous years.

Social care

Various services contribute to improving the living conditions, and preventing social exclusion, of families in difficult circumstances, children, old people, the disabled, the chronically ill, people in state care and in institutions, people on low incomes, the unemployed, and the homeless.

Several hundred local governmental and independent organisations provide **family assistance** for families in crisis owing to social or mental problems. There are over four thousand people employed in the service or volunteers. The **child protection** service has about the same number of staff at twice the number of venues, in an organising-service-care role (e.g. foster parent organisation, street care for children, telephone helplines). These two kinds of service are taken up by some half a million people a year.

There are over two hundred thousand **endangered children** registered by the child protection authorities for environmental, behavioural, financial or health reasons, although their numbers are steadily decreasing. The reason for registration in 62% of cases continued to be financial in 2003. There are currently endangered children in 2.3% of families. Some 30,000 children are in care, and 46,000 placed under guardianship.

There were 22,000 young people living in **residential care** in 2003, of which more than 80% were minors. The numbers in care had fallen by 2% since 1999. The number of minors diminished by 4%, and that of 18-24 year olds increased by 7%. 48% of minors were placed with foster parents, and the rest lived in institutions. 4200 received after-care, 2% more than in 2002.

The number of **adoptions** decreased steadily, whereas the number of children available for adoption increased. Permission was granted for 769 adoptions last year, 180 fewer than in 2000. The number of children available for adoption increased from 372 to 501.

Family assistance and child welfare service

	Family assistance services				Child welfare service		
	number of units	number of taking up the service, thousands	number of employees	number of volunteers	number of units	number of taking up the service, thousands	number of employees
2000	660	274	2 291	1 503	1 525	156	3 510
2001	776	290	2 820	1 444	1 497	193	3 707
2002	805	310	2 455	1 629	1 587	207	3 906
2003	777	307	2 587	1 345	1 541	174	3 939

Basic social care is provided by local governments. To reduce disadvantages, a village caretaker service has been organised for villages of populations under 600 and inhabited areas outside settlements. The number of village caretakers⁶ was 366 in 1999 and 707 in 2003. However, the service only operates in one out of every two small villages.

Home assistance and social meals services primarily serve the elderly population. Home assistance is organised by 61% of towns and villages, and a social meals service by 74%. 2% of the elderly population receive home assistance and 5% social meals. The majority of recipients are women. Owing to the ageing of the population, the health of the elderly, changes in housing patterns, and employment of women, the number requiring care is steadily increasing.

In 2003 there were 7600 people working in care and service provision in home assistance services, two-thirds of them professional carers. Over the last four years, the number of carers employed as a principal job increased by 10%, and that of volunteers decreased by 35%, showing that there is a considerably greater burden on each carer than previously.

Clubs for the elderly provide day care for elderly people in need of social and mental support and only partly able to look after themselves. There were nearly 1300 clubs in operation in 2003, providing for some 40,500 people. The numbers taking up the service has remained practically static for many years, and is somewhat higher than the number of places.

Day care centres for the disabled were visited by 2500 people in 2003. The number of establishments has been growing continuously since 1993, as has the numbers of places and people cared for.

Day care for the **homeless** is provided by day shelters and public kitchens. The number of establishments hardly changed over the four year period, but attendance at day shelters rose slightly in 2003, and the numbers served by public kitchens is show a gradual decline in the long term.

The number of permanent residential homes increased by a third between 1999 and 2003, and the number of places by 11%. The reason for this, apart from financial constraints, was the trend towards smaller, family-like homes. As part of this process, a new form of care was introduced in 2000: residential homes for up to twelve (in exceptional cases fourteen) for psychiatric patients or people with disabilities. The number of accommodated is constrained only by the capacity.

⁶ Converted into number of full-time employees.

Day care for the unemployed

	Number	Capacity	Average daily attendance
Day shelters			
2000	69	3 404	3 825
2001	71	3 714	4 203
2002	68	3 612	3 854
2003	71	3 814	4 335
Public kitchens			
2000	41	4 737	4 153
2001	43	5 024	4 457
2002	40	4 375	3 974
2003	42	4 702	3 957

Residential homes accommodated 68,000 people at the end of 2003. 62% of places were occupied by elderly people and about a quarter by disabled people. 11% provided care for psychiatric patients, and 3-4% were for care of addicts or other people in need.

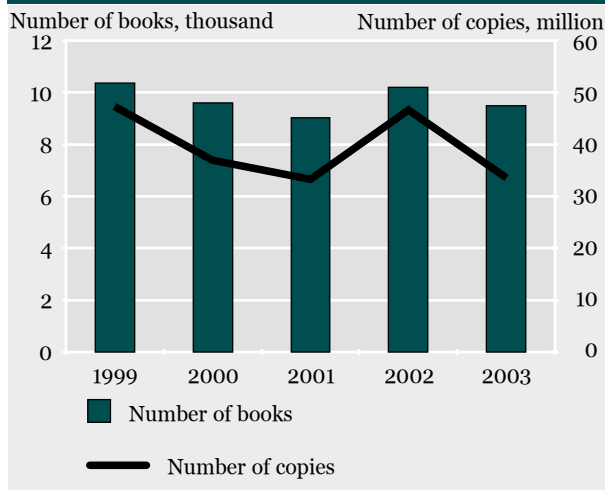
Temporary care establishments had capacity for 9600 people at the end of 2003, hardly more than in 1999. Most places (60%) are maintained for the homeless.

Books, culture and entertainment

The book market stopped contracting in 2002, and following the abrupt rise in book output that year, the number of works published in 2003 was equal to four years previously and the total print run to three years previously. Market conditions and diminished state subsidy permitted publication of 9500 works, of which nearly 34 million copies were printed. 31% of books and booklets were technical, 23% fiction, and the rest textbooks, non-fiction and other categories. In line with established trends, textbooks accounted for a third of the total copies and fiction 29%.

Income from sale of books approached HUF 57 billion in 2003, 5.8% higher than the year before at current prices. 89% of turnover in books went to the top 150 publishers. The highest turnover was in non-fiction (26%), school textbooks and language books (25%), scientific works, technical books, higher educational books, encyclopaedias and dictionaries (21%), and fiction (17%). Scientific works, technical books, higher educational books, encyclopaedias and dictionaries accounted for a smaller proportion of sales than

Principal publishing figures



the year before. CD sales in 2003 provided nearly 5% of book turnover.

At the turn of the second and third millennia, there were over 400,000 books in print in the European Union. The number of books published per hundred thousand of population was highest in Finland, Denmark and the Netherlands, and lowest in Greece and Belgium. By this indicator, Hungary's place was equivalent to the middle range of member states.

There were more than 9000 public, technical and school libraries operating in 2002, half of them in schools, 34% municipal, 17% technical and workplace. There were also 19 national specialised libraries and branches of the national library. The total of 154 million library units – books, bound journals, microfilm, audiovisual documents, etc. – were divided one third to technical and workplace libraries, 30% each to public and school libraries, and 9% to national and specialised libraries.

Public libraries had nearly 45 million library units, 3.5% more than in 1999. 1,425,000 readers were registered in public libraries, an increase of 60,000 on 1999, but the number of units lent – 34.3 million – was essentially unchanged.

Less than 30% of people in the EU attend libraries. Half of Finns, Swedes and Danes, but much fewer Greeks, use their libraries. The number of books for lending was 666 million. Library stocks expanded in nine countries in the last third of the nineteen nineties, and contracted in the rest. In Finland, the increase was a factor of two and a half, contrasting with Italy, where the number of books for lending fell by half. Each person borrows an

average of over 4 books a year. This figure is over 20 in Finland, 16 in Denmark and the Netherlands, but less than 0.5 in Luxembourg, Portugal, Greece and Spain. In Hungary, the number of library units borrowed per head of population is about 3.5.

There were 3265 cultural establishments in Hungary in 2000, rising to 3320 in 2002. Interest in these establishments' events, as other forms of leisure have expanded, has steadily declined in recent years.

Of the time the Hungarian public has for cultural and entertainment activity, 60% is spent watching television and videos (the two together taking up daily more than 2.5 hours on average, ten times that spent on reading newspapers, for example), one tenth on reading (newspapers, magazines, books) and the rest on other activities and attending events.

A very large proportion of leisure time in the European Union (some 40%) is taken up by watching television and videos, and the attraction of the screen is even stronger in France, the United Kingdom and Hungary (over 50%). In most countries, 20-25% of leisure time is spent on social interaction, slightly more on sport and hobbies, and the rest on listening to the radio and to music, and on reading. Women in general spend a few more minutes on social interaction, charity work, and listening to radio and music and reading, than men.

Changes in consumption of cultural goods follows standards of living, in Hungary as elsewhere. They are also related to price rises of books, the printed press and tickets, and to the spread of information technology. Households spent relatively more on culture than five years ago, the proportion rising from 6.5% in 1999 to 7% in 2002.

The printed press lost more of its leading position on the media market in the EU during the nineteen nineties as electronic information channels expanded. There was a fall in the number of daily newspapers and journals and their print runs in two thirds of countries, but a rise in France, Greece, Germany, Italy and Portugal. Several thousand daily newspapers reach subscribers and newsstands every day, and there is nearly twice the number of periodicals as there was at the beginning of the decade. Nearly half of the population of the EU read a daily newspaper. The most sensitive to daily information from the printed press are the Finns, the Swedes, the Germans and the Luxembourgers (63–78%), in marked contrast to the Greeks, the Spanish and the Portuguese (20–25%).

The changes in Hungarian newspaper publishing are in line with general trends, and the country lies

in the lower third of the middle range in terms of daily newspapers per thousand of population, but at the top of the field in terms of periodicals. 76% of the public are regular periodical readers.

There are an average of four public service television channels in EU countries, with an average daily transmission time of 17 hours. 31% of public service broadcasts are films and serials, over a quarter quizzes, game shows and reality shows, 18% cultural, educational, and documentary programmes, 16% magazine and discussion programmes and 9% sport. In Hungary, there are three public service channels, and their daily transmission time is some 21 hours.

98% of the EU population declared themselves to be television watchers in 2001. The most watched daily programmes are news and daily events (89%), films (84%) and documentaries (62%), followed by sport programmes (50%) and soap operas (43%). News programmes were most watched in Denmark and Sweden, films in the eastern part of Germany and in France, documentaries in Denmark, sport programmes in Sweden and Finland, and serials in Belgium and Ireland.

Two fifths of public service radio broadcast time, similarly to previous years, was taken up by music programmes. Programmes concerned with news, current affairs and the economy, and informative programmes, took up approximately equal proportions of broadcast time (15–16%).

Radio listening habits were also affected by the increasing shift of the news-conveying role to television, as the latter's visual capabilities developed and satellite and cable transmission expanded. Radio nowadays is often played in the background, or – by virtue of stereo transmission that provides a concert-like experience – a means of listening to music. 61% of the population listen to music every day, 20% several times a week, and the rest less often. 6% of respondents did not listen to music. The most common means of listening to music is radio and television, but the significance of CDs, DVDs and personal computers is rising. 62% of music lovers listened to CDs and DVDs without a computer connection, and one eighth with.

There were 448,000 cinema screenings in 2002, fifty per cent more than in 1999. The rise was due to the appearance of multiplex cinemas in Budapest and other towns. There were half as many screenings as before in other towns, and an even greater rise in Budapest. The number of viewers these attracted, however, only went up by 6%.

In recent years, three or four new films have been

premiered in Hungary every week, most of them (nearly 60%) American. There has been no major change in the proportions of Hungarian filmgoers in the recent period, 8.7% buying tickets for Hungarian films in 2000 and 8.5% in 2002. The country with the highest proportion of domestically-made films among those premiered is France (36%), followed by Italy (26%). The corresponding figure for Hungary is 14%, similar to Denmark, Austria and the Netherlands.

In the European Union, the public spend about 0.1% of their income on cinema tickets, similarly to Hungary. The average ticket price in 2000 was 5.20, most expensive in Sweden and Denmark (7–8), and cheapest in Portugal, Italy and Spain.

Fifty-four theatres were operating in Hungary in 2002, twenty-three of them in Budapest. Over 13,000 performances were given, for which 4.2 million tickets were purchased. Budapest venues accounted for 47% of performances and 50% of audiences. Other towns had nearly 50% of theatre performances and 44% of audiences. The number of performances given in villages has been extremely low in recent years, although it rose slightly in 2002. On average, every thirtieth performance is given in a village, and these attract only a sixtieth of audiences. Theatres' income per paying visitor was some HUF 650 in 2000, rising to nearly HUF 1000 in 2002.

In the EU as a whole, 27% of the public had been to the theatre in the year preceding the survey. The theatre is most popular in Sweden, the United Kingdom and Finland, while theatregoing is rarest in Portugal.

The number of concerts organised by the National Philharmonia company increased in the last third of the nineties, and over 1400 performances were given in 2003, 150–160 more than in 1999. Concert audiences went up by 19% up to 2002, to 485,000, and then back down to about 470,000 in 2003.

29% of the EU public attend concerts. Most of these go to 1–3 concerts a year. Classical concerts, and opera or operetta performances account for over a third of audiences, folk music events 14%, and popular music concerts the rest. The highest interest in classical music events is in Luxembourg, Austria and the eastern part of Germany.

Visits to museums and exhibitions have not changed much over the last three years. There is a museum, museum collection or museum exhibition venue in nearly every town and over a tenth of villages. Over 2600 exhibitions were held in them in 2002, attracting 10.8 million visitors.

Museum attendance in the EU follows a curious pattern, because museums are major destinations of organised tours. Greeks, Portuguese and Spanish are the least interested in the events. Interest in domestic events is strongest in Denmark, Sweden, the United Kingdom, the eastern part of Germany and the Netherlands, and visits to foreign museums and exhibitions most popular among the Luxembourgers, Danes, Swedes and Dutch.

In Hungary, the central government spent nearly HUF 150 billion on culture in 2002, 0.9% of the GDP. (Up from 0.7% in 2000.) Most expenditure was on libraries, arts and community centres and museums, and 37% on arts establishments. The public spent two and a half times as much as the government on culture, 370 billion forints.

Infrastructure

The country's **communal** infrastructure is highly differentiated. Central Hungary is better served than the average, as, in general, are the Transdanubian regions (i.e. west of the Danube).

The number of homes connected to the electricity supply has grown by one or two per cent every year in recent years. In 2002, 6% more households than the national average (per hundred inhabitants of the region) had electricity in Central Hungary, and 8% less in Northern Hungary. Consumption is 10% above the national average in Central Hungary, 4% above in the Transdanubian regions, and lower than the average in the rest of the country.

Piped gas was available to the public in 85% of towns and villages in 2002 (and all towns and villages in the Central Hungary and Northern and Southern Great Plain regions). However, the number of households using gas was above the national average of 79% only in Central Hungary (93%) and Southern Great Plain (90%). No more than 58% of households in Southern Transdanubia had access to gas.

Piped water is supplied to nearly every town and village in Hungary, but 7% of homes are not connected to the system. There was a more than ten percentage point increase in the number of settlements with sewage systems from 1999, to 37% in 2002, and 56% of homes are connected. For every km of water supply pipe, there was 484 m of public sewer in 2002, 117 m more than three years before.

There were 182 hospitals working in the county in 2002. General practitioners worked in 54%, and health visitors in 49%, of towns and villages. The presence of a GP, a health visitor and a pharmacy is only fully assured in settlements of over five thou-

sand population. People living in villages of less than five hundred inhabitants have to travel for any health service.

The total length of **public roads** in 2003 was 31,000 km. Of the 270 km built since 1999, 94 km were motorways. The expansion brought a shift to safer forms of roads and surfacing. Nearly nine tenths of road vehicles were cars (2.8 million) in 2003. There were 23% more vehicles of slightly lower average age (11.4 years) than in 1999, and there is a gradual trend to more up-to-date models. There were 17% more lorries (377,000), but their average age had not changed from 1999 (9.4 years).

The number of **retail outlets** has increased gradually in recent years, and their composition has changed markedly, with signs of saturation in some areas. There were 165,200 shops working in the country at the end of 2003, 1800 more than the year before and 15,100 more than four years earlier.

The regional distribution of new shop openings was highly concentrated. Central Hungary, particularly Budapest, accounted for more than half of the increase over the four year period as a whole, and eight tenths of the 2003 increase. In the same year, the number of shops in all three Southern Transdanubia counties decreased by a total of 600 (although even here, there was an overall increase on four years before, as there was to varying extents in all the other regions). At the end of 2003, 29% of shops were in the Central Hungary region, (including 19% in Budapest, as against 17% four years before). The presence of shops in the smallest villages steadily declined. Settlements of less than 2000 inhabitants lost 1300 shops over the four year period, and those in the 2–5,000 and 5–10,000 population categories, where the number of shops had hitherto been rising, also experienced a drop in 2003. Shop numbers increased most notably in settlements of over 100,000 inhabitants.

There has also been a major structural change, caused by the spread of high floor-area retail outlets. Nineteen shopping centres and thirty-nine hypermarkets were opened during the four years, raising the total numbers to 47 and 63 respectively by the end of 2003. In 2003, shopping centre construction faltered, with only two being added, but eight new hypermarkets were opened. Also meriting mention are the openings of four new do-it-yourself stores, four large electrical stores and one large furniture store.

Of the main shop types, there was a major decline in the number and proportion of specialised and non-specialised food stores, although, with 31% of the total, they still form the biggest category. By

contrast, there were steady increases in the number of shops selling cultural and other manufactured goods (making up 25% of the total), textile, clothes and footwear (18%), and furniture, electrical goods and hardware (12%). Another major trend during the period was the progress of companies at the expense of sole entrepreneurs: over half of shops were run by sole entrepreneurs at the end of 1999, as against 44% four years later.

There were over 55,100 **catering outlets** at the end of 2003, an increase of nearly 1400 on the preceding year and about 7000 on 1999. It was Central Hungary that saw the biggest expansion in catering outlets over the whole period. The 2003 rise was highest both here and in the Western Transdanubia region, while there was a slight drop in Southern Transdanubia. At the end of 2003, a quarter of the country's catering outlets were in Central Hungary (Budapest having 16%, as against 14% four years previously). The Southern and Northern Great Plain regions has 13–15% each, and the rest regions had between 11 and 12%, no major changes having taken place in the last few years.

Catering outlets were divided 91-9 between catering units and workplace canteens in 2003. This represents a 2 percentage point shift to workplace catering since 1999. Within catering units, there were relatively fewer restaurants and confectioneries (67%) and an unchanging proportion of bars, taverns (24%). Companies and partnerships are also making inroads into catering. Although over half of catering outlets were still run by sole entrepreneurs at the end of 2003, this was 11 percentage points down on four years previously. (Half of restaurants and confectioneries, two thirds of bars, taverns and three-tenths of workplace canteens are run by sole entrepreneurs.)

Public accommodation consisted of over 2800 units in July 2003. These had some 80,000 rooms and 319,000 beds in various types and categories of establishment. The number of beds had expanded by 11% in four years.

Budapest had 14% of all public accommodation beds. The figure for hotels was 31%, and for five-star hotels, 97%. (12 of the country's 14 five-star hotels are there.) Nearly eight tenths of Budapest beds are in hotel type (hotels and inns) accommodation. The special resort area around Lake Balaton holds three quarters of all public accommodation capacity, including three quarters of hotel beds and four tenths of campsite capacity. In this resort area, some four tenths of capacity were beds in hotel type accommodation, and a further four tenths was in campsites. (Over six tenths of

accommodation capacity is run on a seasonal basis.)

Hotels accounted for 33% of national accommodation capacity, inns 13%, campsites nearly 30%, and the rest combined, 24%. Of hotels, it was three-star establishments that had the most beds, 46% of the total. The combined number of beds in five and four star hotels was just over the combined number in one and two star hotels. This was a reversal of the situation that obtained until 2002. (In 1999, the capacity of five and four star hotels was equivalent to about a half of that of one and two star hotels.) The change is due capacity rising in higher-category and falling in lower-category hotels. 45 of the country's 780 hotels were spa hotels, with over 12,000 beds, 11% of the total. Hotels registered a total of 1100 conference halls, whose total number in all types of public accommodation was over 1400, with a capacity of 94,000. Some three tenths of public accommodation establishments, including half of hotels, accepted holiday vouchers.

In registered **private accommodation** at the end of July 2003, over 45,000 hosts were providing 246 beds. The number of hosts had not changed on the year before, but their number of beds had grown by 2%, and stood 23% higher than four years before. This capacity divided roughly four fifths/one fifth between short-term private lodging units [approx. "bed and breakfast"] and village short-term lodging units [approx. "farmhouses"]. This means that there has been an approximately 5 percentage point shift towards farmhouses since 1999. Over three quarters of bed and breakfast beds concentrated in distinguished resort region on the Balaton shore. Farmhouse accommodation is far less regionally concentrated. Over 50% of capacity was on the Balaton shore and the other special resort areas Mátra-Bükk and Sopron-Kőszeghegyalja, but nearly three tenths was not in special resort areas or resort-type towns or villages.

There were 3100 post offices operating in the country at the end of 2003, 150 less than the year before. There was a slow growth between 1999 and 2002, but some countryside post offices were closed last year.

Since the turn of the millennium, mobile phones have been gaining ground at the expense of the fixed network. The number of exchange main lines has been decreasing since 2000, so that the slow growth of ISDN lines is not capable of compensating for the reduction of analogue lines. At the end of 2003, there were 3,613,000 exchange main lines working in the country, of which 600,000 were ISDN. The number of analogue lines decreased by

82,000 during the year, and the rate of increase in digital lines was slower than in previous years, at 25,000. The proportion of the latter grew from 3.2 to 17% in four years. The number of mobile subscriptions overtook exchange main lines in 2001, and was more than double by 2003. At the end of last year, there were 7,945,000 mobile subscriptions, 1,059,000 more than a year earlier, and nearly five times as many as the end of 1999. The rate of growth in 2000 was around 90%, but gradually subsided as the market began to saturate, and last year it was down to 15%. Postpaid mobile subscriptions accounted for 78% of the total. There were 35.7 exchange main lines per hundred inhabitants (35.9 in 1999) and 78.5 mobile subscriptions (6.1 in 1999).

Mobile phones are more widespread in Hungary than most accession countries, and Hungary has also been catching up with the European Union in this area for several years. There was an average of 78 mobile phones per hundred of population in the EU member states in 2002, compared to 51 (according to International Telecommunications Union – ITU – figures), in the accession countries. There were an average of 32 exchange main lines per hundred of population in the accession countries, compared to 57 in the EU. In Hungary, the number of telephones overtook the number of inhabitants in 2002, and last year there were 114 per hundred of population, compared with 135 in the European Union.

Cable television is expanding at a steady rate. It was available in less than a third of towns and villages in Hungary at the end of 1999, but to 41% in 2002. Cable TV was received in some 140,000 more homes – 1.75 million – than the year before, 43% of the total (38% in 1999).

There were 674,000 Internet subscriptions at the end of 2003, a rise of fifty per cent on the year, and surpassing the 40-40% rises in the previous two years. Last year, there was a spectacular increase in fast Internet links. The number of switched-line (modem and ISDN) subscribers hardly increased, and so their proportion fell in a single year from 81 to 58%. At the same time, the number of xDSL subscriptions grew by a factor of three and a half to 17%, and cable TV Internet connections by two and a half to 11%. Wireless link users constituted 10% of the total.

Hungary falls well short of the EU and even the accession countries in terms of Internet use. It is

estimated that 16 out of every 100 people used the Internet here in 2002 (6 in 1999), compared with an average of 36 in the EU and 22 in the accession countries. Only in Latvia and Lithuania was the rate of Internet use among the public lower than in Hungary in 2002.

One reason for Hungary's lag in Internet use is the relatively low number of personal computers. There were 11 PCs per hundred of population in Hungary in 2002, as against 34 in the European Union and 13 in the accession countries. According to ITU statistics, Hungary is slightly better placed in terms of Internet host computers, there having been 19.2 hosts per thousand of population in 2002, compared with 18.3 in the accession countries. The EU average is 40.5.

In companies and partnerships whose core activities are computer services, there were 78,000 computers operating in 2002, 16,000 more than the year before, and 42,000 more than in 1999. Personal computers accounted for 98% of these, 2 percentage points higher than in 1999. More and more companies are installing their own networks, and after a 40% rise during the year, the number of these stood at 3630 at the end of 2002, twice as many as in 1999. The rate of Internet access among employees in these companies grew from 51% in 1999 to 72% in 2002.

The number of personal computers per hundred households went up from 11 in 1999 to 29 in 2003. However, only 5.4% of households in 2002 had computers connected to the Internet.

Legal and public security

The preliminary figures from the combined police and public prosecution crime statistics system show that discovered crimes,⁷ after a slight increase in 2001, decreased in the next two years. The 413,000 discovered cases in 2003 were 1.8% fewer than the previous year and 18% fewer than in 1999. In the longer term, felonies decreased further than misdemeanours, and in 2003, there were nearly 5% fewer crimes but slightly more misdemeanours. Felonies constituted 40% and misdemeanours 60% of all crimes discovered last year.

Although crime declined as a whole, there were slight rises in some categories. There were 1% more crimes of violence and disorder last year, but 7% fewer were committed in public places.

18,000 crimes against the person were detected

7 Only discovered crimes are shown in the crime statistics. A discovered crime is one for which enquiries have been completed. The number of discovered crimes stated for a period include some cases that occurred earlier, and not all those that occurred during the period. (Calculations show that in 2003, a smaller number of discovered cases than usual, 52-53%, were committed during the year.)

in 2003, 6.6% more than the year before. This included a (continuing) rise in homicides. This crime has displayed a curious rhythm in recent years: the numbers were:

250	in	1999
203	in	2000
250	in	2001
203	in	2002
227	in	2003.

Deliberate bodily harm, which constitutes a large fraction of crimes against the person, made up about the same number of crimes as in 2002: 11,500.

There were increasing numbers of crimes against spouses, families and youths, sex-related crimes, crimes against public order and economic crimes. Of crimes against public order, the biggest rises were among forgery of official documents and abuse of documents. This category also includes abuse of drugs, which went down by 30%, 3387 cases being detected.

Last year, some 20,000 traffic crimes were detected, similar to the 1999–2001 figures, but 7% less than the 21,600 recorded in 2002.⁸

The number of crimes against property, which constitute two thirds of all crime, also decreased. However, the 2.7% overall decrease was the sum of changes in opposite directions. There were fewer cases of theft, burglary, robbery and receiving, but more of fraud, embezzlement, infringement of

copyright and neighbouring rights, and unauthorised taking away of vehicles. Thefts included a higher number of vehicle thefts (8886).

There were 118,000 discovered criminal perpetrators in 2003, nearly 4000 (3.1%) fewer than in the previous year. The decrease was confined to men; there were 666 more women perpetrators, which raised the female proportion by 1 percentage point to 14.6%. The numbers of youth and young adult (18–24) perpetrators decreased faster than average, by around 10%, and there was a similar decrease among perpetrators below the age of criminal responsibility, to 3554 in 2003. There were 5300 foreign citizens among perpetrators, 413 or 8.4% more than in the previous year.

There were 87,476 convictions of adults and 6726 of youths in 2003. Adult convictions were down 4900 or 5.3% on the previous year and at about the same level as in 2000. There were 600 fewer youth convictions than in 2002 and 800 fewer than in 2000. Custodial sentences were handed down for 34% of convictions, most of them suspended. 11,300 adults and 472 youths were ordered to actually serve custodial sentences, 4 and 9% fewer respectively than in 2002. An eighth of all convictions involved actual custodial sentences.

Law enforcement penal institutions held 16,507 inmates in 2003, 1330 fewer than the previous year and 968 more than 2000. 76% of those in custody were convicts, 23% were on remand and the rest were referred for compulsory treatment or confinement, or were held in detention.

⁸ There were 1.5% fewer public road accidents in 2003 and 10% fewer fatal accidents.

The environment and its protection

Hungary's accession in spring 2004 will not have spoiled the European Union's environmental averages. In 2003, the area of nationally **protected land** totalled 821,000 hectares, of which 34% are included in the List of Wetlands of International Importance or among UNESCO biosphere reserves.

Forest covered 1,823,000 hectares of the country in 2003, an increase of some 20,000 hectares on the previous year. On the basis of leaf loss, Hungary ranks among the middle range of European countries. The health of Hungarian forests severely deteriorated between the late 1980s and the early 1990s. In the period of more than a decade since then, there has been a further relative decline in the number of healthy trees, to only 35.6% in 2003, 2.5% lower than the previous year. The total decline since 1990 was 14 percentage points. The proportions of severely damaged (2.8%) and dead (2.6%) trees, after a period of stagnation, went up again.

The proportion of intensively-cultivated forest areas has not changed substantially since 1980, fluctuating around 34–38%, and so there has been no increase in burden on the ecosystem and species diversity from this source.

Hungary's per capita **water extraction** from surface and underground stocks was 550 m³, almost the same as the EU average. Water use fell by half during the nineteen nineties, mainly owing to reduced domestic and irrigation use. This may be attributed to rises in water and drainage charges: the water charge increased sixfold and drainage charges eightfold, compared with the 4.3-fold overall increase in the consumer price index. The majority of surface water quality parameters indicate good or tolerable water quality. Rather lower quality levels were indicated by the overall microbiological condition and, for some surface waters, the micro-contamination figures. The quality of Lake Balaton water has improved, and not only in the inner regions, where the water has been classified as of excellent quality in microbiological terms.

Tests conducted by the water utilities in 2002 found 4.5% of drinking water samples to be bacteriologically, and 7% chemically, "unacceptable". Drinking water had to be transported to a total of 6 towns or villages in 2002, as against 18 in 2000.

Drinking water sources are increasingly protected by major sewage projects implemented in recent years and still continuing. These resulted in 56% of homes being connected to the public drainage sys-

tem in Hungary in 2002. This level of provision conceals wide regional differences, however. The below-average regions Northern and Southern Great Plain, for example, have drainage provision of under 40%.

Much of the drained sewage is not treated, however, and only 26% of the population live in an area served by sewage treatment plant. The corresponding figure is over 80% in more than half of EU countries, and over 90% in five, but considerably higher than Hungary's in all of them. The **quantity of sewage** led through the public sewer reflects the decline in water use, and has not grown despite the expansion of the sewage system, indeed it declined in 2002 to 525 million m³. This is a 40% decrease on 1990. An increasing share of sewage led through the public system passes through biological or third-level treatment before discharge. Sewage subjected to at least biological treatment in 2000 constituted 58% of the total drained into the public system, and this proportion increased slightly in 2002.

In homes connected to the water supply but not the sewage system, a further 133 million m³ (tonnes) of domestic liquid waste was generated, of which hardly more than 2.6 m³ was removed and treated in 2002, i.e. less than 2% of the total.

Emissions of common atmospheric pollutants in 2001 showed a continued decrease on the year before. Sulphur dioxide was 18% down, and particulate (solid) matter some 5% down on 2000. In EU countries, per capita atmospheric discharge of these pollutants is only a third of the Hungarian level. Emission of volatile organic compounds – whose per capita value in Hungary is less than half of the EU average – went down by 8% and carbon monoxide by 9%, while nitrogen oxide emissions remained unchanged. Per capita emission of the latter two pollutants in Hungary is well below the EU average. The largest sulphur dioxide emissions are from electricity generation, and most nitrogen dioxide and carbon monoxide comes from transport sources. Particulate matter is emitted into the atmosphere mainly from industrial plants. Industrial production also contributed to the reduction in carbon monoxide emissions, reducing their own emissions to two-thirds of the previous level.

The Central Transdanubia region contributed 41% and Northern Hungary nearly 30% of national sulphur dioxide emissions, while Central Hungary was responsible for nearly 30% of carbon monox-

ide and nearly 20% of atmospheric solid material emissions. Budapest alone is a major polluter, generating 17% of carbon monoxide and nitrogen oxide emissions.

4.6 million tonnes of municipal waste, 1.8 million tonnes of hazardous waste and slightly under 10 million tonnes of non-hazardous industrial waste were generated in 2002. (The latter quantity does not include waste from agriculture and the food industry, whose annual quantity is estimated at 70–80 million tonnes.) Waste was collected on an organised basis from 88% of homes in 2002. Somewhat more than 300,000 tonnes of waste was generated in homes not served by organised waste collection, most of which presumably ended up in illegal dumps. 2.4% of all municipal waste is collected selectively, and 3.6% in junk clearances. 9% of collected waste (402,000 tonnes) was made use of: 288,000 tonnes was incinerated, 67,000 tonnes recycled and 47,000 tonnes composted.

Land protection, amelioration projects help to protect and restore the natural fertility of the soil, improve habitats and contribute to the protection of underground water. The volume of state-supported land improvement projects (landscaping, soil protection, land drainage, soil improvement), after a steady decline over the last two decades, has started to rise again. Land improvement projects in 2002 involved drainage on 8000 hectares of land and landscaping on 3600 hectares. This activity was most evident in the West and Southern Transdanubia and Northern Hungary regions. Soil improvement is now almost solely concentrated on acid soils (8900 hectares), with very little activity on saline and sandy soils.

The use of **agro-chemicals** has declined markedly, mostly for economic reasons. The quantity of

pesticides used per hectare in 2002 (1.4 kg active ingredients) was less than half the EU average in 1998. The amount of fertiliser used per hectare of agricultural land (72 kg) is nearly a third below the 1990 figure. Companies used weedkillers on 25% of agricultural area land and insecticides and fungicides on 10–11% in 2002. In terms of relative area treated, the Transdanubia regions, especially Southern Transdanubia, surpassed the national average, and the eastern parts of the country, especially Northern Hungary, fell short of it.

The number of **organic farms** and the area of land used for ecological cultivation, in consequence of rising government subsidies and market demand, is increasing steeply. Between 1999 and 2002, there was a threefold increase in both the number of farms (1000) and the area brought under organic cultivation (104,000 ha). The proportion of land used for organic cultivation increased to 1.8% by 2002, compared with the European Union average of 3.7% in the same year. In Hungary, 44% of the land of organic farms eligible for increased subsidy under EU agriculture policy were given over to arable cultivation, 41% to grassland, and 2.4% to vines, fruit and vegetables. Arable cultivation is mainly of wheat, oil-bearing crops (sunflower, rapeseed, oilseed pumpkin) and pulses.

A total of 147 billion forints was spent on environmental protection investments in 2002, 10% less than the previous year. This was 4.3% of all investments in the Hungarian national economy. Most – some two thirds – was spent on sewage treatment, 12% on atmospheric pollution protection, and 8% on waste treatment. Environmental expenditure totalled HUF 115 billion, of which HUF 69 billion was paid to external service providers.

Economic development

Economic growth

The gross domestic product (GDP) grew by a total of 16.3% in the period 2000-2003. Scope for economic growth was fundamentally constrained by the protracted international economic slowdown, with the unavoidable consequence that the annual rate of growth steadily slowed. (GDP went up by 5.2% in 2000, 3.8% in 2001, 3.5% in 2002 and 2.9% in 2003.)

A more accurate picture of changes in the Hungarian economy is obtained from mid-year trends, since annual averages tend to conceal most of the changes.

In the **first quarter of 2000**, the Hungarian economy achieved its highest rate of growth since the political transition, nearly decade and a half ago (6.6%). However, the adverse effects of the world recession were already felt in 2000, and the rate of GDP growth slowed from quarter to quarter, to 4.2% by the fourth.

The adverse trends continued and indeed worsened in many respects in **2001**. Growth slowed further, with an especially heavy fall in exports. In the first quarter of 2001, exports were 18% higher than the same period the previous year, but in the fourth quarter they were already 3% below the base period. (Here, exports include the combined total of goods and services.) It was industry that was most severely affected by the export downturn, and gross value added in this sector stagnated in 2001, following a 10% rise the year before. Real wages in industry rose faster than production, with adverse consequences for competitiveness. Another factor in the loss of competitiveness was that the forint price level of industrial exports, overwhelmingly because of the appreciation of the forint, grew by only 1.5% in 2001 against 8.5% in 2000, and actually went downwards in the second half of the year. In the meantime, industry's domestic sales prices increased by 9.5% over the year, as consumer prices increased by 9.2%. Structural disproportionality in GDP use started in 2001. The rate of growth of household consumption (5.9%) greatly exceeded that of GDP (3.8%). The growth rate of fixed capital formation slowed from the previous year, but was still high (5.0%). However, the structure of investments went through changes that were adverse for exports and economic growth. Manufacturing, which is of key importance for exports, held back on its development activity. (It invested 3% less than in the previous year.)

In **2002**, the economy's existing problems became more serious, and other phenomena started taking adverse effects. The rate of economic growth fell in the first half of the year, and although it went back up slightly in the second half, this was a weak and only temporary tendency. (GDP was 3.2% higher in the first half and 3.8% in the second.) Export growth also slowed down further, to 3.7% over the year. (In the previous year it had grown by 8%, and two years previously by 21%.) A curious development was that the 3.7% volume growth of exports in 2002 was accompanied by a 1% drop in forint export income at current prices, predominantly because of the exchange rate change. For exporters with a high import fraction, cheapening imports partly counterbalanced the income loss. The appreciation of the forint had severe consequences primarily for exporting small and medium-sized companies.

The industrial downturn deepened and verged on recession in the first half of the year. Industrial value added went down, if only minimally, in the first quarter, and growth was still under 1% in the second, but the mild second-half recovery brought the annual figure up to 1.3%.

The gap between generation and domestic use of GDP widened in 2002. Household consumption, starting from the relatively high level of the previous year, abruptly increased, primarily in consequence of unprecedented pay awards growth. The pace of investment growth was faster than in the previous year, but the unfavourable structural changes became more marked. Business investments – which directly boost the economy and future export growth – weakened further, while house building, enjoying substantial state subsidies, made further progress, as did non-market sector investments which assist economic growth only indirectly and in the longer term. The upturn in internal demand had the principal effect of raising imports, and made little impact on domestic production. The combined effect of these was a rising deficit in general government and current account. Another important feature of 2002 was slowing inflation. The rate of increase of consumer prices went down to 5.3% from 9.2% in 2001.

These unfavourable phenomena continued in the **first quarter of 2003**; growth of both GDP and exports slowed further. The second GDP report put growth at 2.7% in the first quarter and 2.5% in the

second. Exports in the same periods went up by 2.6% and 1.1% respectively on the same periods the year before. The pace of growth of internal demand – principally owing to the delayed effect of demand stimulation measures taken in the previous years – remained high. Household consumption in the first half of 2003 was 7% higher than in the same period the year before. Although the rate of increase was slightly slower (compared with 8.5% in the first half of 2002), it was still several times higher than GDP growth. The current account balance deteriorated at an accelerating pace.

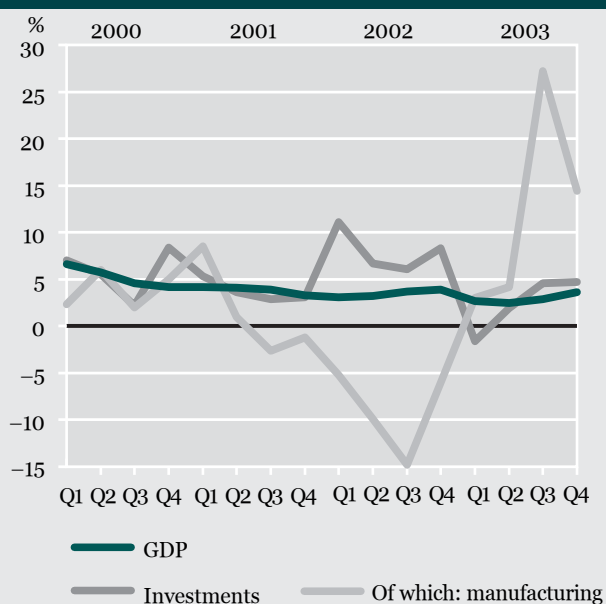
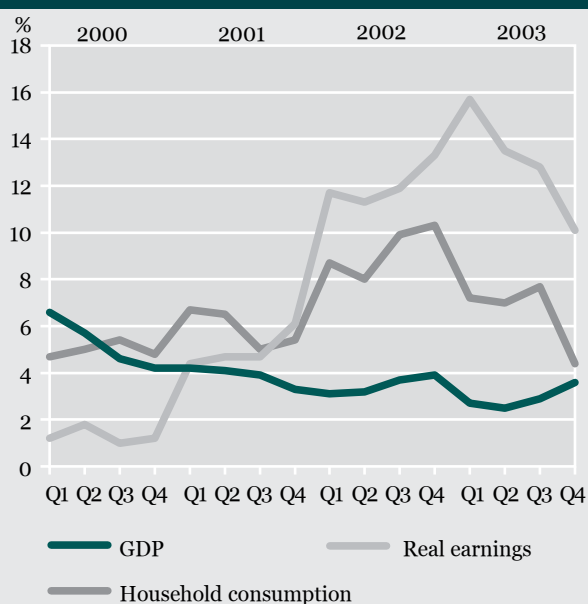
The economic trends of the second half year marked a turning point. The rate of economic growth started to pick up, and compared with the same periods the year before, GDP was 2.9% higher in the 3rd quarter and 3.6% higher in the 4th quarter. On the production side, the turning point was underpinned by industry, and on the demand side by exports. Exports of goods and services combined went up by 8% in the 3rd and 17% in the 4th quarters. This upturn slowed the deterioration of the external trade balance and the current account. In parallel with pay outflow restraint, the rise in consumer demand relaxed. The discrepancy between the rates of growth of GDP and consumption in favour of the latter narrowed by the end of 2003. This resulted from both slowing consumption and economic revival. Changes for the better regarding the economic recovery also took place in

the structure of investments. The general government deficit improved in 2003 compared with the year before, but at 5.9% of GDP, remained in excess of EU requirements. (The Maastricht criteria set the upper limit of the deficit as 3%.)

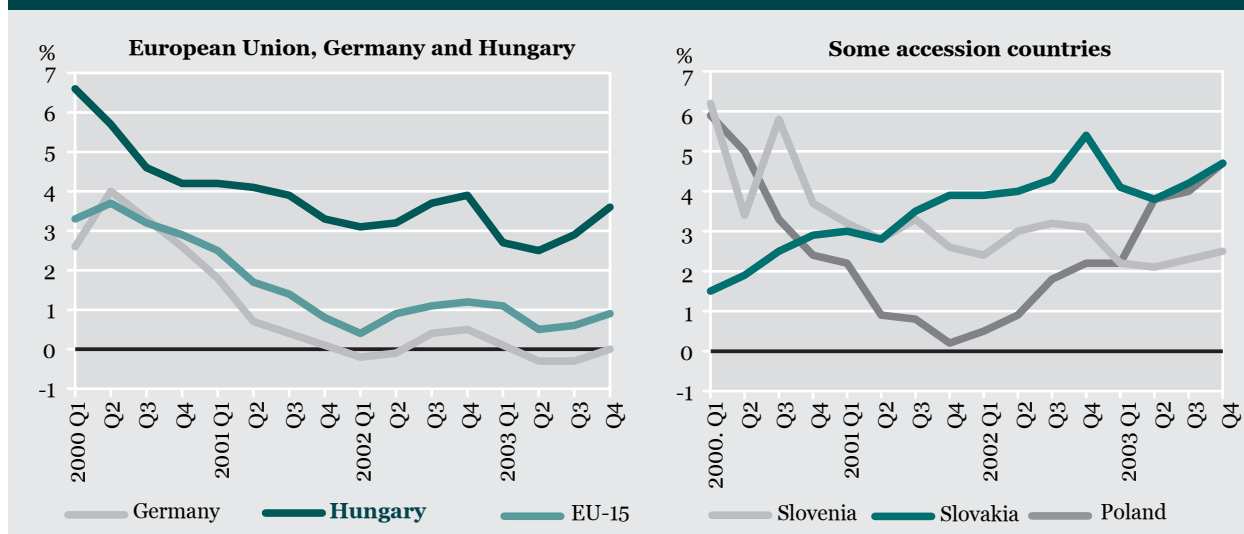
Despite slowing down for most of the four-year period, economic growth in Hungary stood up well by **international comparison**. In the European Union (EU-15), the economic downturn was deeper and more protracted than in Hungary. GDP in the European Union grew overall by 7% in the four year period between 2000 and 2003. The EU also experienced a recovery in the second half of 2003, but at very slow rate. GDP growth even in the fourth quarter still fell short of 1%. In countries of key significance for Hungarian external trade, like Germany, recuperation was even slower than the EU average. The four-year growth in Germany was only 4%, and the economy was still stagnant in 2003. (GDP contracted by 0.1%.)

Of the **10 accession countries**, growth over the four years was 11-13% in the Czech Republic, Slovenia and Poland, and 15% in Slovakia, all lower than the Hungarian level of 16%. However, the recovery at the end of the period was faster in Poland and Slovakia than in Hungary. It must be taken into account that Slovakia started from a very low rate in 2000 (GDP growth was only 2% in the first half), and Poland went through a deep recession in 2001.

Some indicators of GDP, consumption and investment
(growth on the same period of the previous year, %)



Changes in GDP on the same period of the previous year



Structure of GDP use

The **ratio of consumption to accumulation of GDP** changed substantially during this relatively short, four-year period. **Total final consumption** (the sum of household and government consumption) accounted for 73% of GDP in 2000 (at current prices), but increased to 77% in 2002 and 79.2% in 2003. Despite an exceptionally high rate of consumption growth during these years, greatly outstripping GDP growth, the 2003 figure was still not strikingly high by international comparison. In the European Union (EU-15), total final consumption was also around 79% of GDP in both 2002 and 2003. Of the accession countries, the proportion of consumption was consistently much higher in Poland, and lower in the Czech Republic and Slovakia, than in Hungary.

Fixed capital formation in Hungary was 23.4% of GDP in 2000, falling to 22% by the end of the period. This was still higher than the European Union average, but relatively low when set against the three

south European EU countries lying close to Hungary in terms of stage of economic development – Greece, Spain and Portugal. The gap is 2–3 percentage points in their favour. Of the accession countries, Poland's fixed capital formation is strikingly low, and Slovakia's particularly high. In the latter, the rapid rise of accumulation in 2002 was accompanied by deepening equilibrium problems in the real economy.

Some principal economic indicators for Hungary

	2000	2001	2002	2003
GDP growth	5.2	3.8	3.5	2.9
Current account deficit as percentage of GDP	6.2	3.4	4.0	5.7
General government deficit as percent age of GDP ^{a)}	3.6	3.0	10.1	5.7
Annual consumer price rise	9.8	9.2	5.3	4.7

a) By financial figures.

Main GDP use items in per cent

	Year	Total use	Fixed capital formation	Stock changes and other	Total inland use	Import (-), export (+) surplus
European Union	2002	78.9	19.4	0.0	98.3	1.7
Czech Republic	2002	74.2	26.3	1.8	102.3	-2.3
Poland	2002	84.2	19.2	0.0	103.4	-3.4
Slovakia	2002	76.2	29.8	1.4	107.4	-7.1
Hungary	2002	77.1	23.4	1.8	102.3	-2.3
	2003	79.2	22.0	3.1	104.3	-4.3

The formal indicator of equilibrium in the real economy is the export-import surplus expressed as a percentage of GDP. In the European Union, external trade in goods and services has shown a positive balance for some time, and the surplus is equivalent to 1–2% of GDP. There is a wide variation between different EU countries, however. In the south European countries at the bottom of the ranking of the stage of economic development, the balance is negative: less than Hungary's in Spain (–1.5%), but larger in Greece and Portugal (–6.8 and 7.5%).

Gross national income (GNI)

GNI is a macro-indicator derived from GDP. Unlike GDP, GNI does not include primary income created **in Hungary** by foreign capital, but does include primary income of Hungarian-owned capital operating **abroad**. The two main forms of primary income are employee income and proprietary income (dividend, interest, etc.). In Hungary to date, it has been the role of foreign proprietary income that has been dominant, foreign employees' income being only a fraction of that. Proprietary income is a correction factor regardless of whether the proprietor takes it out of the country (repatriated dividend) or reinvests it in production. Although the latter part of the income does not leave the country, it increases foreign ownership.

The presence of foreign capital in the Hungarian economy has expanded since the political and economic transition, and Hungarian capital has also been invested abroad. HCSO has been regularly publishing the **GNI** indicator since 1995. In the three-year period between 2000 and 2002, GNI grew faster than GDP. Over the three-year period as a whole, GNI increased 13.8%, as against 13% for GDP.

GDP and GNI			
(at current prices, HUF billion)			
	2000	2001	2002
GDP	13 172.3	14 849.8	16 740.4
Net shareholders' income (taken out)	–470.3	–471.8	–496.9
Reinvested capital income	–287.7	–385.6	–455.8
Work income balance	42.4	45.2	36.7
Total correction	–715.6	–812.2	–916.0
GNI	12 456.7	14 037.6	15 824.4

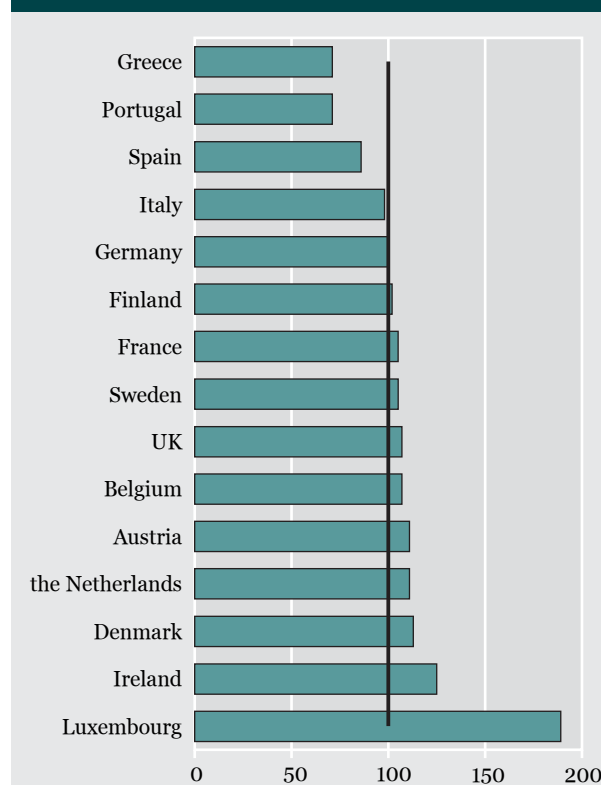
The negative foreign income balance was equivalent to 5.4% of GDP in 2000. This figure increased slightly up to 2002 (to 5.5%). Capital income taken out of the country in 2000 constituted nearly two thirds of foreign income. This proportion fell to 54% by 2002. The proportion of capital income ploughed back into Hungarian economy grew year by year and approached 50% in 2002. This income was spent by foreign proprietors on developing their businesses in Hungary.

National wealth

The level of wealth (stage of development) of the Hungarian economy is compared to other countries on the basis of per capita GDP at purchasing power parity.

In 2002, GDP per capita was equal to 53% of the average in the EU-15.

Per capita GDP in EU member states in 2002
(at purchasing power parity in % of EU average)



The seven countries topping the wealth rankings in the **European Union** are headed by Luxembourg, where per capita GDP in 2002 was 89% higher than the EU average. Ireland was in second place

(25% higher). The other countries in the group were Denmark (13%), the Netherlands, Austria (11% each), Belgium and the United Kingdom (7% each).

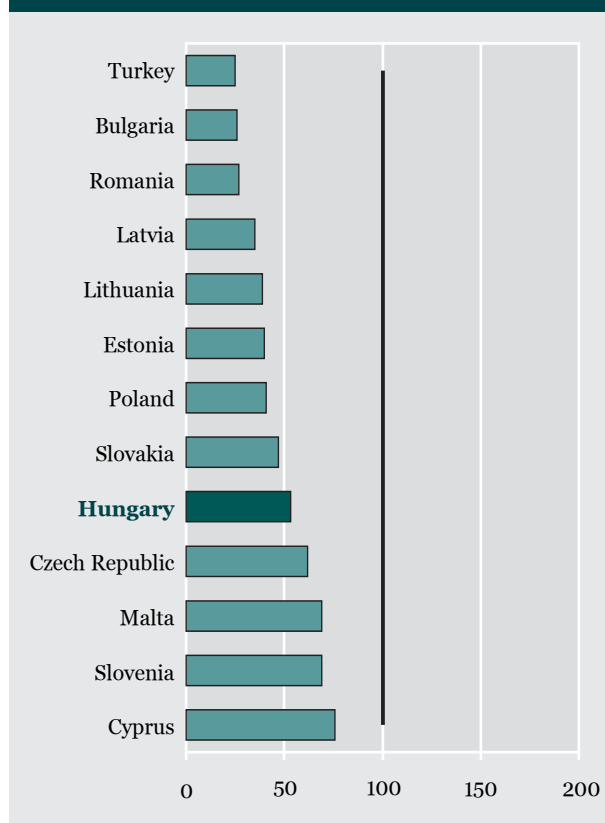
In the next four countries in the list, per capita GDP was slightly greater than or equal to the average (by 0-5%) in 2002. This middle range comprised France, Sweden, Finland and Germany.

Four member states lay below the EU average. From being slightly above the year before, Italy only achieved 98% of the average in 2002. Per capita GDP was 86% of the EU average in Spain, and 71% in Portugal and Greece.

In the **accession countries** group, 4 countries lie ahead of Hungary: Cyprus, Malta, Slovenia and the Czech Republic. Slovenia's figure was equivalent to 69% of the EU average, and the Czech Republic's 62%. (The Hungarian figure, it should be remembered, was 53%.) Just behind Hungary in the rankings came Slovakia, 6 percentage points below at 47%, and then Poland and Estonia at about 40%. Latvia and Lithuania were under 40%.

The per capita GDP of the three **EU candidate countries**, Romania, Bulgaria and Turkey lie between 25 and 27% of the EU average.

Per capita GDP in accession and candidate countries in 2002
(at purchasing power parity, in % of EU-average)



Investments

The volume of gross fixed capital formation fluctuated widely over the four year period, but expanded overall by 23%, exceeding the 16% growth of GDP. Fixed capital formation grew by over 7% in 2000 and 2002, 3.5% in 2001 and 3% in 2003, and as a percentage of GDP it went up from 23.5% in 2000 to 24.8% in 2003 in real terms. However, its share at current prices contracted to 22%, because investment prices in these four years increased more slowly than the GDP deflator index, mainly due to the price movement of imported machinery.

The gross fixed capital formation share in the GDP – at current prices – averaged 19.1% in the EU 15 countries in 2003, and 21.4% in the accession countries. By international comparison, the rate of accumulation was fast in Hungary, the increase in gross fixed capital formation having been 2% overall in the EU during the four years, and 4% in the accession countries. The modest figure in the latter group is strongly influenced by the 15% drop in the dominating Polish figure.

Investment is the key element in gross fixed capital formation, a constant share of 90% in the last three years. (Capital formation not constituting investment covers such things as intangibles, assets acquired via financial leasing, etc.). In the Hungarian national economy the volume of investments has grown steadily since 1996, by a total of 24% over the last four years. The growth has fluctuated widely: it was 7.4% in 2000 and 3.5% in the next year. In 2002, the boost to central government investments, mainly infrastructural, and the continuing house building boom caused a 7.8% increase. In 2003, the weak start to the year was followed by a gradual acceleration, and overall annual growth was 3.1%.

Changes in the distribution of investments by **legal form** were partly related to rearrangements in the structure of the economy. Share of investments by sole proprietors rose from 18 to 27% over the four years, primarily owing to the rising number of houses built by the public. The proportion of investments financed by budgetary organisations went up in 2002, but last year fell slightly under the 2000 level. Companies' investments share decreased from 67 to 58% of the total between 2000 and 2002, and stood at 58.6% last year.

Owing to the many infrastructural developments and the large number of new dwellings, construction investment volume grew faster than investments in machines over the last four years as

a whole, and made up 54% of the total at the end, against 49% at the start. Construction investments grew rapidly between 2000 and 2002, but decreased by 2.9% last year. Investments in machines, after the 8% growth in 2000, hardly changed for two years, and then advanced by 12.3% in 2003. One reason for this was a recovery in the productive sector investments, and another was the continuing (for a second year) fall in prices of imported machinery, which caused a 22% rise in volume of investments in imported machinery in 2003.

Construction and machinery investments, 2003

	Distribution at current prices,	Volume index	
		1999=100.0	2002=100.0
Total investments	100.0	123.5	103.1
of which:			
construction	53.8	127.8	97.1
machinery	44.6	121.3	112.3
of which			
domestic	22.4	118.0	102.9
foreign	22.2	125.0	122.4

The **sectoral distribution** of investments changed considerably. The most vigorous investment activity (72% growth in four years) was displayed in the real estates, renting and business activities branch of the economy, which includes house building. This made it into the largest branch as regards investments, with a 27.6% share. Investments in manufacturing industry, after sliding back 11% in 2002, advanced 13.2% last year, an overall increase of 3% since 1999, but slipped from 27 to 22% of total investments over the four years. In 2002, motorway construction brought investments in the transport, storage, and communications branch of the economy, which includes road building, up by 18%, but it then went down by 9.1% last year. The combined proportion of these three branches was 63% last year.

Overall investments in the four branches of the economy involving public services - public administration, education, health and other services - grew somewhat above the average following 1999, although fluctuated widely from year to year. In 2002, these branches, with the exception of other community and personal services, expanded their investments by outstandingly large amounts,

between 20 and 40%. Last year, all four branches saw a drop, bringing their combined share down from 16 to 13%.

Investments by companies in Central Hungary went down in 2003, but their share of the national total, although lower, remained dominant at nearly 50%. Those in all other regions raised their amount, and thus their share, of investments. The greatest advance was in Northern Hungary. On a per capita basis, investment was highest in Central Hungary and Central and Western Transdanubia, but growth was more vigorous in the other regions from 2000 onwards.

Foreign direct investment

There have been two main trends in the world's foreign direct investment in recent years: firstly the destination of capital has changed, with less going to advanced countries and more to the other groups of countries, and secondly the rate of growth of foreign direct investment has been slowing down since 2001 - to 8% in 2002, having been 20% in 2000. Total world foreign direct investment⁹ was 7.1 trillion dollars at the end of 2002. Of this, nearly two thirds is in advanced countries, one third in developing countries and 2.6% in Central and Eastern Europe. Of the latter group of countries, Hungary is in third place behind Poland and the Czech Republic, and in second place in terms of capital invested per capita.

Owing to a change in methodology, the recent figures for Hungary cannot be directly compared with those published in the past. The changes are in line with the accounting principles employed by Eurostat and the OECD. Therefore, instead of the subscribed capital, as was used earlier, the basis of comparison is equity, which includes the income ploughed back by foreign investors. Equity is counted at market value for companies quoted on the stock exchange, and at book value for others.

The rise in foreign direct capital is influenced by the magnitude of new inward investments and, in the case of stock exchange quoted companies, by the share price, as well as by the proportion of reinvested income. In Hungary, it used to be new inward investment and occasionally (e.g. in 1999)

⁹ Source: World Investment Report, United Nations, New York and Geneva, 2003.

share prices that dominated the annual increase of foreign capital. The situation changed in 2000, and the rise is increasingly due to reinvested income. Foreign direct capital in Hungary stood 11% higher than the previous year at the end of December 2000, at seven trillion forints. The proportion of reinvested income in the capital increment went up from 52% the previous year to 66%.

Foreign-controlled companies accounted for 53% of the equity of all companies in 2002.

At the end of 2002, two-thirds of foreign capital was owned by the following four countries: Germany (32%), the Netherlands (15%), Austria (11%) and the United States (8%). The fifth largest investor, France, had 5%, but no other country had more than 3%.

Foreign inward investment shows a strong regional concentration, although this is beginning to abate. It increased in all regions, and 63% of the total was invested in Central Hungary, 12% in Western Transdanubia and 8% in Central Transdanubia in 2002 (figures according to companies' registered addresses). The lowest figure was in the Southern Transdanubia region (2.2%). The number of companies in Hungary decreased in 2002. The decrease affected every region except Northern Great Plain, particularly Szabolcs-Szatmár-Bereg county, where there were 600 more foreign controlled companies by the end of the year.

62% of all manufacturing equity is foreign owned. The sector attracting the second most foreign capital is trade, which is 12% foreign owned. In three sectors – property transactions and economic services; financial activities; and transport and telecommunications – the proportion of foreign ownership is about 10–11% each. In agriculture, there is very little foreign capital owing to restrictions on land sale.

Foreign controlled companies¹⁰ accounted for 43% of all the value added produced by companies submitting tax returns in 2002, 47% of their net sales income and 43% of their investment outlay, and employed a quarter of the average statistical workforce. Of profitability indicators, the total return on capital was higher and the wage fraction smaller among foreign enterprises. Return on investment, stock turn, asset cover and liquidity did not show significant differences.

Foreign controlled companies' share in external trade rose from year to year, and represented 79% of imports and 83% of exports in 2002. Their activities generated a third of the total ex-

ternal trade deficit. 66% of their imports went to the advanced countries, predominantly the European Union, and 85% of their exports came from there. Machinery and transport equipment dominated in trade with the EU in both directions. Germany continues to be the major external trade partner.

The number of **offshore** companies registered in Hungary grew from 250 in 1999 to over 820 by the end of 2002. These companies' equity multiplied by a factor of 4.5 in three years, from 1.8 to 8.2 trillion forints in 2002, exceeding the foreign direct investment in Hungary by 17%.

(Offshore companies may not establish relationships with domestic legal persons - i.e. companies - and their gross value added may only originate from activity conducted with third countries. They only contribute to Hungarian GDP by the value of goods and services purchased in Hungary.)

Capital invested abroad by Hungarian entrepreneurs rose from HUF 207 billion in 1999 to HUF 450 billion in 2002. 20% of outgoing Hungarian capital went to the Netherlands, followed by Macedonia with 15% and Slovakia with 14%. Romania and Denmark both took 8%. The destination of Hungarian capital outflow has altered considerably since the late nineteen nineties: 45% of it went to the Netherlands at that time, and more than 12% to Austria, the second-largest destination country. The latter received less than half a per cent in 2002. There have also been shifts in the sectoral distribution of Hungarian businesses' foreign direct investments. In 2002, the financial intermediation branch still accounted for the highest share, 38%, although this is shrinking. Trade and repair also declined (15%), but there were rises in real estate, renting and business activities (19%) and manufacturing (17%).

Balance of payments, foreign debt*

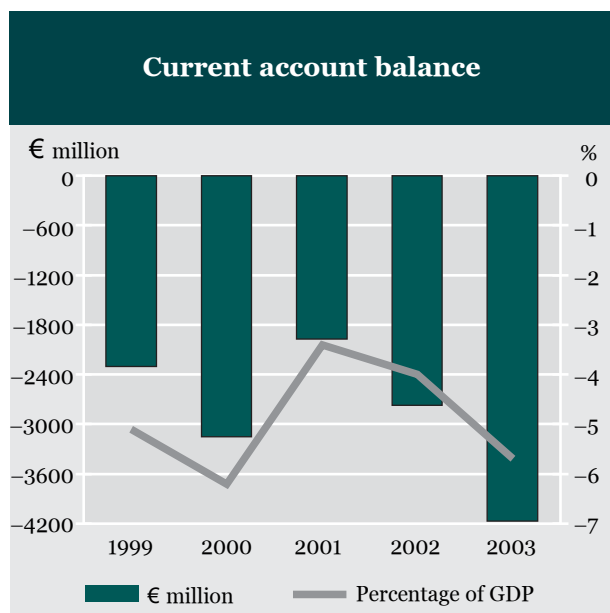
The **current account deficit** in 2000 was nearly € 3.2 billion, 6.2% of GDP. In 2001, the deficit lessened substantially to € 2 billion, or 3.4% of GDP, but this gave way to rises in both 2002 and 2003. The deficit rose to € 2.8 and € 4.2 billion in these years, equivalent to 4 and 5.7% of GDP respectively.

Hungary's current account deficit as a proportion of GDP is high compared to most advanced countries. The average EU current account balance

¹⁰ The figures that follow do not include those for financial businesses.

* The source of figures is the National Bank of Hungary.

was in surplus in the second half of the nineteen nineties, but went into deficit (0.8%) in 2000, essentially because of the oil price rise and the resulting deterioration in terms of trade. The deficit narrowed to 0.2% in 2001, and turned to a half-per-cent surplus in 2002-2003. The accession countries had an average deficit of over 4% in 2002.



The annual Hungarian account deficit was essentially determined by the balance of transactions in the real economy, i.e. by the shortfall in exports of goods and services, which displayed large fluctuations from year to year. The balance of income and current transfers displayed an approximately constant deficit of € 1.1–1.2 billion, although even less than this – € 0.9 billion – in 2003.

Main components of the current account balance				
Description	(€ million)			
	2000	2001	2002	2003
Balance of transactions in the real economy	-1 950	-853	-1 567	-3 228
Balance of income and unreciprocated transfers	-1 202	-1 114	-1 204	-938
Current account balance	-3 152	-1 967	-2 771	-4 166

The net income outflow in 2000 and 2001 was € 1.5 billion, rising somewhat to nearly 1.7 billion in 2002. This was followed by a fall in 2003 to under

€ 1.5 billion. Annual net interest-like expenditures related to debt fluctuated between € 7 and 800 million during the period, and net dividend-like payments not related to debt¹¹ between € 800 and 1100 million, offset by the € 140–180 million net surplus of pay earned by people employed abroad for periods of less than one year. In 2003, debt-related and non-debt-related net income resulted in deficits of € 810 million each, and work income a surplus of € 140 million. The improvement to the current account balance by the surplus of current transfers has been rising from year to year, and amounted to nearly € 540 million in 2003.

In the second half of the nineteen nineties, **non-debt generating sources** (direct investment and portfolio investments embodying ownership) played the dominant role in financing the current balance of payments. From 2000, this trend faltered, and loans started to dominate finance of the deficit. Foreign inward investment in Hungary was still high – € 1.5 billion in 2000 and 2003, 1.1 billion in 2001 and 1.3 billion in 2002 – but such investments abroad by Hungarians rose abruptly. The total capital invested abroad in 2000-2002 was € 1.2 billion, and in the single year 2003 the figure was € 1.3 billion. Portfolio investments embodying ownership fluctuated widely in both amount and destination. The outflows under this heading amounted to € 630 million in 2000, 190 million in 2002, while 90 million in 2001 and 230 million flew in 2003. The end result of these developments was that the annual percentages of the current account deficit covered by non-debt generating sources, in the years 2000–2003, were 8, 41, 32 and 11 respectively.

Hungary's **gross foreign debt** including shareholders' loans was € 28.9 billion at the end of 1999, rising to € 46.3 billion at the end of 2003, but its proportion of GDP fell from 64.2 to 63.1%.

International reserves and other assets stood at € 27.8 billion at the end of 2003, 9 billion higher than at the end of 1999.

Hungary's **net foreign debt** increased from € 10.1 billion at the end of 1999 to 18.5 billion at the end of 2003, and from 22.5 to 25.2% of GDP. The private sector accounted for much less of this increase than the combined borrowing of the general government and the National Bank of Hungary (MNB). The latter raised its share of total net foreign debt from 30.2% at the end of 1999 to 47.3% by the end of 2003.

The country's **net foreign debt in foreign exchange** (without shareholders' loans and

¹¹ The figures do not include reinvested dividend income.

Hungarian state securities denominated in forints) went up from € 5.7 billion at the end of 1999 to € 8.1 billion by the end of December 2003, but down from 12.6 to 11.1% of GDP.



Gross non-debt liabilities of the Hungarian national economy started at € 20.8 billion at the end of 1999 and went up to 26.8 billion by the end of 2003. This included an even faster rise in inward investment by non-residents, surpassing 84% at the end of 2003. Non-debt assets (foreign direct and portfolio investments by residents) grew by € 2.1 billion during the period to € 3.6 billion. Non-debt **net liabilities** totalled € 23.2 billion at the end of 2003, most of that – 83% – direct investment.

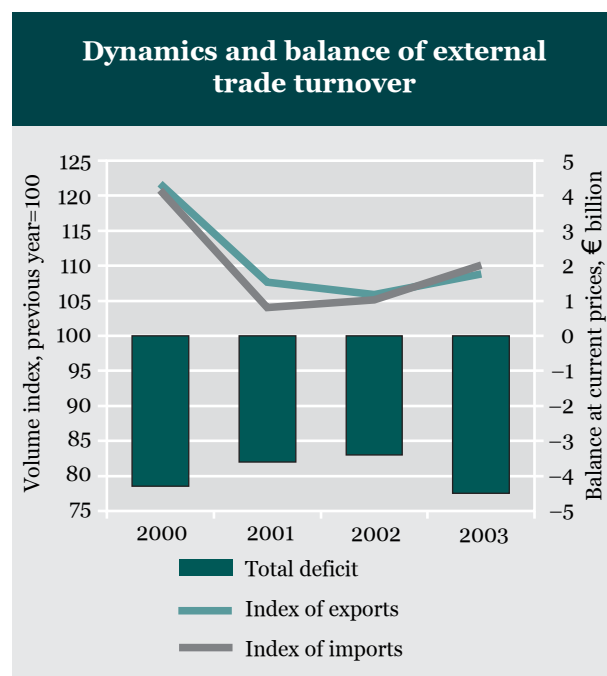
Total foreign liabilities (debt and non-debt liabilities) totalled € 73 billion at the end of 2003, and assets totalled € 31.4 billion, so that net foreign liabilities amounted to € 41.6 billion. This was equivalent to 56.8% of GDP, nearly 10 percentage points lower than in 1999.

External trade

External trade commodity turnover increased very fast in 2000, more slowly in 2001 and 2002, and then revived again in 2003. The slowdown was primarily the result of trends in world trade, and appeared earliest and most strongly in imports. It was also imports where the

first signs of revival appeared. The accelerating import growth in the second half of 2002 was chiefly motivated by domestic consumption, but in 2003, there was a rise in imports of capital goods, and in the last third of the year, the lead was taken by items for production and assembly. Export growth slowed down more gradually, but for a more protracted period until mid-2003, only then recovery started. Over the year as a whole, export volume was 9% higher than in 2002, and import volume 10% higher. Exports were thus more than 1.5 times, and imports nearly 1.5 times, higher than four years previously. Exports grew faster than imports every year between 2000 and 2002, but the reverse was true in 2003 (although export growth was faster again in the last quarter).

Slowing growth was accompanied by an improvement in the equilibrium. The **external trade deficit** in 2002, after € 4.3 billion in 2000 and 3.6 billion in 2001, amounted to € 3.4 billion. At the same time, the relative deficit, i.e. as a percentage of exports, eased from 14.1 to 10.5 and then 9.4%. The acceleration in 2003 led to renewed deterioration of the equilibrium. The deficit increased to € 4.5 billion, i.e. 11.9% of exports. This was higher than the relative deficit in the preceding two years, but still considerably lower than in 2000.



In the **European Union**, external trade, according to Eurostat data, did not recover even in 2003, and trade in some relations which had been growing until then actually started to recede. The value of

trade between member states in euros, after the steep growth of 2000 and the slower growth in 2001–2002, was 2% below the previous year's in 2003. The situation was similar in exports to countries outside the EU – a shrinkage of 2%. Extra imports remained on the stagnating-decreasing trend that started in 2001, and the 2003 value was around that of the year before. After a surplus in 2002, the external trade balance – in this relation – again went into deficit in 2003, although much less than the severe deficit of 2000 or even the smaller deficit of 2001.

In the nearly all of the **accession countries**, also according to Eurostat data, external trade expressed in euros grew in 2002 and 2003. Cyprus' exports and imports and Malta's exports fell short of the previous year. In the other countries, exports grew by 3–16% and imports by 2–16%. Hungary's export growth (4% in euro terms) was among the lower figures, and its import growth (6%) in the middle range. Every accession country, including Hungary, closed every year with an external trade deficit. The proportions of accession countries' exports which went to the European Union in 2003 ranged between 43% (Lithuania) and 74% (Hungary). The proportions of imports from there were between 45% (Lithuania) and 67% (Slovenia). Hungary's proportion was 55%. Three accession countries appeared among the European Union's 10 largest external trade partners: Poland was in 7th place in 2003, with 3–4%, the Czech Republic in 8th place, with 3%, and Hungary in 9th place, with just under 3%.

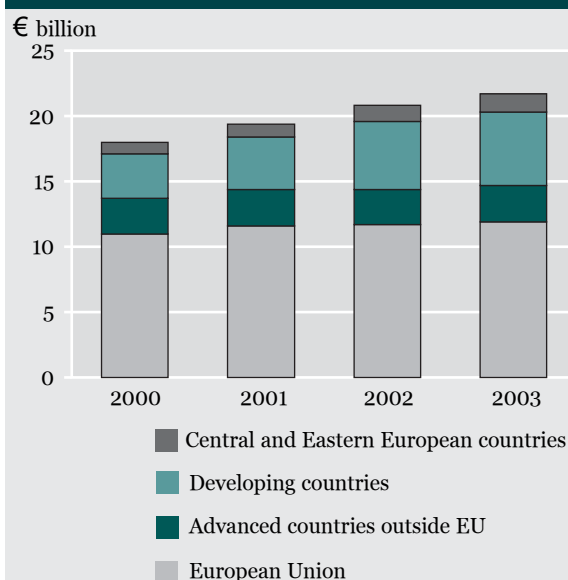
The **commodity structure** of Hungary's external trade did not change during the period. Some six tenths of exports and over half of imports were in the **machinery and transport equipment** category. The rise in this group of products was faster than average throughout the period except for one year, and growth of exports mostly outstripped that of imports. (This was the area most severely affected by world trade slowdown in 2001.) In 2003, machinery exports increased by 15% on the previous year, taking it to 1.7 times the level of four years previously. The corresponding figures for machinery imports were 12% and 1.6. A major part of exported engineering products were produced by multinational companies, mainly in customs-free zones, and machinery imports to a large extent were the basis for machinery exports. These companies were also dominant factors in the structure of products and trading destinations for all machinery exports and imports.

Machinery exports every year were 90% made up of five machinery groups: mechanical power equip-

ment; office machinery and computers; telecommunication equipment; electrical machinery; and road vehicles, including parts and components.

The main markets of machinery exports were always the advanced countries, above all the European Union countries. Although their shares decreased by a few percentage points between 2000 and 2003, they accounted for 88 and 81% respectively at the end of the period. The relative gain was chiefly in exports to Central and Eastern European countries, although these still represented only 7% in 2003. Developing countries took 5%.

Machinery imports by country group
(at current prices)



The wide-ranging **manufactured goods** group represented around 30% of exports and 35% of imports. Turnover in this main commodity group was for many years influenced by video game exports, where a boom between October 2001 and May 2002 greatly boosted exports, and the subsequent slump dampened them considerably. When the "basis effect" wore off in the second half of 2003, exports of manufactured goods recovered, but volume still remained 1% lower than the year before, although it was 1.3 times higher than that of four years before. The corresponding figures for imports were increases of 8% and 1.3 times respectively. The largest item at the start of the period (apart from "others") was textile yarn and fabric, which was mainly brought into the country for processing. Imports in this category have since decreased considerably. (A similar trend in exports was experi-

enced in the clothing and accessories group, which largely consists of finished products involving processing.) This was offset by a strong rise in imports of several other product categories, notably pharmaceuticals and medical appliances. (There was also a substantial rise in pharmaceutical exports, although at a much lower level than imports.)

The **food, beverages and tobacco** main commodity group makes up a much larger proportion (7%) of exports than imports (3%). The increase in exports in 2000-2001 was followed by a decrease in 2002 and minimal recovery in 2003. Volume was hardly 1% up on the year before, and about a tenth down on four years previously. At the same time, import volumes climbed steadily and steeply, by a total of 40% over the four years, including 10% in 2003. Even so, the value of imports was only just over half of exports (although it had been considerably less than half in 2000). About two thirds of food exports comprised three product categories: meat and meat preparations; fruit and vegetables; and cereals and cereal preparations. There was a relative decrease in exports of meat and meat preparations over the period, while those of cereals and cereal preparations, despite stagnation or slippage in 2002-2003, increased overall. Food imports were dominated by fruit and vegetables, animal feeds and coffee, tea, cocoa and spices, together accounting for 55% of the total. Of these, it was imports of fruit and vegetables that grew most.

The foreign markets for food are much less concentrated than those for machinery or manufactured goods. Nearly half of exports were to the European Union and four tenths to the Central-Eastern European countries in 2003. (In 2000, the proportions were about equal, at 44%).

The main – and rising – food import supplier was also the European Union, with a 50% share in 2003. The proportion from the developing countries lessened, to under a quarter in 2003; that from the Central-Eastern Europe stayed at 20% throughout.

Energy has a marginal presence in exports (2%), but accounted for 8% of imports in the 2000-2003 period. Import volume in 2003 was 9% higher than the year before and 22% higher than four years before. The changes in value from year to year were different from changes in volume, and sometimes in opposite directions. The divergence was highest in 2000, when world prices rose very sharply and led to the amount spent on energy imports in 2003 being twice that (in euro terms) of four years previously. For the same reason, this main commodity group exercised an influence on import expenses as

a whole, and in turn on the external trade balance, much greater than its share of trade might suggest.

Some nine tenths of energy imports were in two product categories: crude oil and oil products, and natural and artificial gas. Their combined proportions stayed practically the same during the period, but their relative proportions changed: the dominant group was oil and oil products in 2000, giving way to gas imports in 2003. And within the oil and oil products group, crude oil imports steadily gave way to oil products.

The main source of energy imports continued to be Central-Eastern Europe (basically Russia). Imports from here made up over 85% of the total in 2003, a slight decrease on 2000, and at the same time the proportion from the European Union increased, but was still only 13% in 2003. (A large part of energy imports from Russia continued to arrive via Western European intermediaries.)

Raw materials form a small proportion of both exports and imports, around 2% every year. Volume changes in both directions fluctuated. Raw material export volume was 11% higher than in 2002 and 15% higher than in 2000. Imports during these periods increased by 7 and 25% respectively.

The distribution of external trade by source and destination did not go through any major changes during the period, but there were some shifts, including a relative decrease to and from the European Union and other advanced countries, and a relative increase in exports to the Central-Eastern European countries and in imports from the developing countries.

Export shares of main destination countries, 2003

Rank ^{a)}	Country	Percentage
1. (1.)	Germany	34.1
2. (2.)	Austria	8.0
3. (3.)	Italy	5.8
4. (6.)	France	5.7
5. (7.)	United Kingdom	4.5
6. (4.)	the Netherlands	4.1
7. (17.)	Sweden	3.3
8. (5.)	United States	3.2
9. (11.)	Spain	2.7
10. (10.)	Romania	2.6

a) The number in brackets are the 2000 rankings.

74% of exports were to the European Union in 2003, and 80% to advanced countries as a whole. These figures represent decreases of 1.5 and 3 percentage points respectively on 2000. The first nine of the ten top export destinations were advanced

countries, and eight of these were European Union members. Romania was in 10th place, followed by Belgium and then three Central-Eastern European countries about to accede to the European Union (Poland, Czech Republic, Slovakia). The Central-Eastern Europe region as a whole accounted for 16% of exports in 2003, 3 percentage points higher than in 2000. Developing countries took a largely unvarying share of exports, around 4%.

The European Union provided 55% of imports in 2003, and the advanced countries 65%. These shares were down by 3 and 5 percentage points respectively on 2000. Of the ten largest import partners in 2003, seven were in the advanced countries group, and five were European Union member states. By contrast to the European Union and the advanced countries, developing countries' shares of imports went up by 4 percentage points to 18%. The main contribution to this figure was the very rapid rise in imports from China. 17-18% of imports came from Central and Eastern European countries in every year. The dominant country in this group was Russia, basically through energy supplies, followed by the three accession countries Poland, the Czech Republic and Slovakia.

Import shares of the main source countries

Rank ^{a)}	Country	Percentage
1. (1.)	Germany	24.5
2. (3.)	Italy	7.1
3. (9.)	China	6.9
4. (4.)	Austria	6.3
5. (2.)	Russia	6.2
6. (6.)	France	4.8
7. (5.)	Japan	4.2
8. (7.)	United States	3.2
9. (12.)	Poland	2.8
10. (8.)	United Kingdom	2.7

a) The number in brackets are the 2000 rankings.

Tourism, catering

In recent years, international tourism has suffered from several negative factors of varying strength in different regions of the world. In Europe, and so in Hungary, the weak economic situation has been the dominant factor over the last few years, although other factors, such as the 11 September 2001 terror attack or the Iraq conflict in 2003 and its consequences, have all taken their effects, if indirectly.

In 2000–2003, Hungary's borders were crossed by 30–32 million people each year. **The number**

of visitors, as in previous years, did not constitute a very large tourism demand. Many visitors, mainly from neighbouring countries came for purposes such as shopping or work, or simply passed through the country. The number of **foreign guests in public accommodation** made up about a tenth of the visitor traffic each year. (Many foreigners coming for tourist or other purposes use non-public, such as private accommodation, or stay with relatives, and some even have their own properties in Hungary.) Foreign guests spent an average of 3.4–3.5 nights in public accommodation, 10–11 million nights a year. These figures show a 10% increase in foreign guest traffic in public accommodation in 2000–2001 combined, followed by a 5% drop in each of the years 2002 and 2003. The trend among visitors from the European Union – making up seven tenths of foreign guest nights – was similar. (European Union countries accounted for some three tenths of border traffic.)

The decrease in foreign guest traffic showed up mainly in types of accommodation at the lower end of the scale, and hardly at all in the highest categories. In hotels, nearly half of foreign guest nights were spent in five- and four-star hotels in 2003, against 44% four years before; the number spent in two- and one-star hotels fell from 18 to 8% in the same period. In other forms of accommodation types, the modest rise in 2000–2001 was followed by a larger fall in 2002–2003. (These types of accommodation represented nearly three tenths of foreign guest traffic in public accommodation.)

The decrease in foreign guest night traffic was also differentiated geographically. In Budapest, where there is an overwhelming concentration of accommodation in the highest categories and where a very large proportion of foreign guests stay, it was less perceptible. Here, a temporary dip of about 4% in 2002 was approximately made up for in 2003; and the number of guest nights was a fifth up on four years previously.

The number of **Hungarian citizens travelling abroad**, from a little over 11 million in 2000 and 2001, went up to 13 million in 2002 and 14.3 million in 2003. (Higher numbers of journeys abroad have only been recorded three times previously – and then only slightly higher: in 1989, 1991 and 1994.)

In the 2000–2003 period, between 2.9 and 3.3 million domestic guests stayed in the country's public accommodation each year. Their average stay was 2.5–2.7 nights. In 2003, their number of guest nights – 8.2 million – was 3% up on the previous year and 11% up on four years before. (Steady

growth was broken only by a slight dip in 2001.) In view of the shrinkage of foreign business in the previous two years, this led to a further relative increase in domestic guest business. In 2003, guest nights were divided 46–54 between domestic and foreign guests, a 3 percentage point swing to domestic guests since 1999.

Combined public accommodation business from foreign and domestic guests, after a total increase of 8% in 2000–2001, went down by 1–2% in each of the years 2002 and 2003. **Eurostat** figures for January–October 2003 also show a decrease – of between 1 and 6.6% – in public accommodation guest nights in many European (EU and non-EU) countries over the same period the previous year. However, guest nights increased substantially – 2.5–3.7% – in Spain and Portugal, and remained at the same level as the previous year in Finland, Sweden, Austria and Germany. Of the accession countries, there was a substantial rise in Slovenia (3.5); and an almost constant level in the Czech Republic.

Occupancy rate of hotels decreased as a whole and in every individual category. It remained highest throughout in five- and four-star hotels, but the 55% room occupancy rate in 2003 was 5–10 percentage points down on 1999. (Guest business in these categories – against the general trend – increased substantially, but not by as much as the expansion in room and bed capacity.) Room occupancy rates of 41% in three-star hotels and 31–32% in one- and two-star hotels were 1–6 percentage points lower than in 1999. The average occupancy rate was 44% in 2003, 1 percentage point down on 2002 and 2–3 percentage points short of the 1999 and 2002 figures.

The **accommodation charge income of public accommodation establishments** – at current prices – stagnated in 2002–2003, having risen gradually in 2000–2001, but their 2003 takings were about a fifth over those of four years previously.

By contrast, income from their catering facilities steadily increased during the period. Public accommodation establishments' other income also increased. This led to a gradual relative decline in accommodation charge income as part of their income as a whole: 53% in 2003, as against 60% in 1999. The **total income of public accommodation establishments** – also calculated at current prices – displayed steady but slowing growth. The 2003 total was just 2% higher than the 2002 figure,

but 34% ahead of what it had been four years previously. The consumer price index of the accommodation services and catering sector for both 2003 and the four-year period as a whole, went up somewhat faster than this, by 9 and 52% respectively.

Total **catering** business, at comparable prices, after a drop in 2000, went up in 2001 and 2002, and then back down in 2003. The volume of business in 2003 was 2.3% lower than in 2002 but 5% higher than four years previously. Catering business divided about nine tenths-one tenth between public and workplace catering. (About a tenth of public catering is represented by catering facilities in public accommodation, mainly in hotels, and nine tenths in other units.) In public accommodation as a whole, the volume of business in 2003 was 3.6% lower than in 2002 but 4% higher than four years previously. Apart from a dip in 2001, workplace catering went through a significant expansion. The volume of business in 2003 was 9% up on the previous year and 16% on four years previously.

The **foreign exchange revenues** related to international tourism, according to the National Bank of Hungary's current account figures, went up strongly in 2000–2001, but declined sharply in 2002–2003. The 3 billion euro income in 2003 was 12% lower than in the previous year, 10% below that of four years previously, and nearly 30% below the 2001 figure, the highest on record. **Foreign exchange expenditures**, customarily much lower than income, grew at an accelerating rate up till 2002, and despite easing back somewhat – by 2% – in 2003, still ended 23% above the 1999 level. The **surplus** followed a similar trend as revenues: in increase in 2000–2001, followed by a much larger decrease. The 2003 surplus of more than € 1.2 billion was 390 million less than in 2002, 670 million less than four years previously, and less than half of the 2001 figure.

General government and its sub-systems*

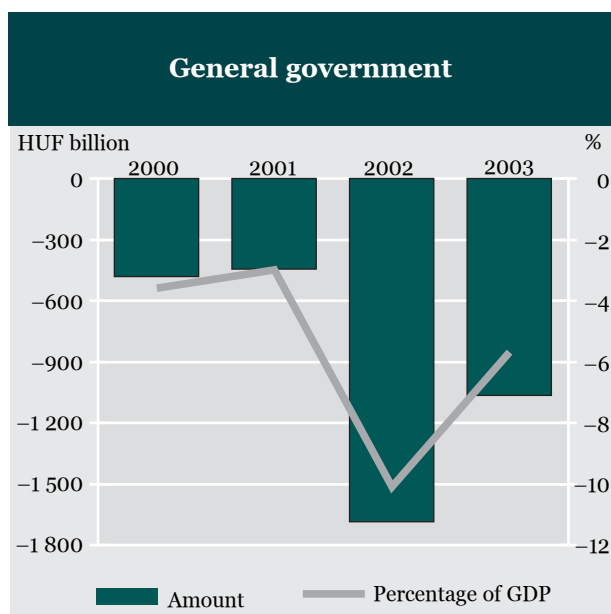
There were no major changes in the share of individual sub-systems in the total general government over the four year period, if extraordinary central government expenditure is discounted. Nearly half of gross unconsolidated revenues was received by central government, a quarter by social insurance funds, nearly a quarter (and slightly rising) by local governments, and about 2% by extrabudgetary

* Source of data: Ministry of Finance, and calculations by HCSO.

state funds. In terms of gross expenditure, the proportions were slightly higher for central government and social insurance funds, and slightly lower for the other two sub-systems.

In general government revenues, eliminating the effect of price changes, increased by 13% in real terms,¹² and expenditures by 18%. Excluding accumulation within the general government, consolidated revenues rose by 7%, while expenditures increased by 13%. Regarding the first and the fourth year revenues, their concentration relaxed, they decreased from 43.6 to 39.9% of GDP. Expenditures relative to GDP went down in both 2000 and 2001 on the previous year, and then rose to more than 50% in 2002, but went back down below even the 1999 level, to under 46%, in 2003.

The general government deficit as a proportion of GDP, according to cash flow figures, went down from 3.6% in 2000 to 3% in 2001. In 2002, it went up to 10.1%, largely from the effect of extremely high extraordinary central government expenditures. In 2003, the general government deficit was 5.7% of GDP, HUF 1.1 trillion. The deficit calculated by the accrual principle, in accordance with ESA 95, was 7.7 % of GDP in 2001, 7.4% in 2002 and 5.9% in 2003.



In the European Union member states, there was an average surplus in the general government of 1% of GDP in 2000 and a deficit of the same percentage the next year, rising to 2% in 2002 and 2.6% in 2003. Nine EU member states had general govern-

ment deficits in 2003, the largest being in France (4.1%), followed by Germany (3.9%) and the United Kingdom (3.2%). The Netherlands just passed the limit of 3% set in the Maastricht criteria. The highest surpluses were in Finland (2.3%) and Denmark (1.5%). Of the accession countries, only Estonia had a general government surplus (2.6%), the rest had deficits ranging between 1.7% in Lithuania and 12.9% in the Czech Republic.

The **primary balance** of the Hungarian general government was in surplus in 2000 and 2001, but ran up the considerable deficit of 5.1% in 2002, easing to 1.8% in 2003. The EU average was a surplus in all four years, although a steadily diminishing percentage of GDP, down to 0.6% in 2003. Every member country closed 2000 and 2001 with a surplus, but deficits occurred in Germany and France in 2002 and another two countries, the United Kingdom and the Netherlands, in 2003. Of the accession countries, primary surpluses were achieved in Estonia (2.9%) and Slovenia (0.1%) in 2003. The other eight countries ranged from 0.4% in Lithuania and 11.7% in the Czech Republic.

Central government revenues in Hungary rose by 13.4% in 2003 to 4.9 trillion forints, 53% above the 1999 level. Taxes on consumption produced the fastest rise, 1.7-fold overall and 24% higher than 2002. The 2.4 trillion forints from these constituted nearly 48% of all central government revenues in 2003, up from 43–45% in previous years. In 1999, tax on consumption revenues divided two thirds-one third between VAT and excise tax, but by 2003, VAT accounted for more than 72%. The fastest-rising component of central government revenues was tax payments by the public, above all personal income tax payments, but in 2003, owing to the extension of employees' tax benefit in September 2002 and the large tax reclaims that followed, payments fell to 1 trillion forints, less than the previous year's even in nominal terms, and constituting a fifth of total revenues. Revenues from enterprises made up around 13% of the total during the period, and 12.6% in 2003. The slowest growth was revenues of central budgetary institutions, which fell in relative terms year by year and ended at 12.3% of the total in 2003. They thus covered an ever decreasing share of their expenditures, reaching 22% in 2003, having been 34% in 1999.

Expenditures by central budgetary institutions in 2003 were 59% higher than the 1999 level in nominal terms, but 3% lower than the year before, at nearly 5.7 trillion forints. (Central government

¹² The calculations were made using the GDP deflator price index.

expenditures – especially in 2000 and 2002 – included several non-recurrent extraordinary items, such as the capital expansion of the Hungarian Development Bank (MFB Rt.), the replenishment of reserves of the State Privatisation and Holding Company (ÁPV Rt.), the purchase of shares in the State Motorway Operation Company (ÁAK Rt.), non-recurrent pay and pension expenditures, debt assumptions and debt cancellations, which greatly distort assessment of constant expenditures, so that for the purpose of comparability, the expenditure figures are given later without extraordinary government expenditures.) 2003 expenditures thus increased by 9.2% in 2003. The bulk of expenditures was by central budgetary institutions, whose share rose steadily up to 2002. In 2003, these declined relatively to 48.7% to nearly 2.8 trillion forints, 1.8 times the 1999 level. Housing subsidies increased extremely fast, by 90% in 2003 and by a factor of 3.3 over 1999, to 2.4% of total expenditures. Contribution and guarantee to social security went up steeply by over 70% in both 2001 and 2002, but then down by 21% in 2003 on the previous year, so that the four-year increase was 2.9-fold, and the final share of expenditure was 5.3%. Benefits provided in association with social security rose 1.7-fold over four years. The annual increase was over 18% in 2002 and 2003, and the share of expenditures in the latter year, 8.1%. Local governments' central government support was 67% higher in 2003 than it had been in 1999. In 2000, subsidies were lower than the year before even in nominal terms, but rose at the annual rate of 20% in 2001–2003. Their share of central government expenditures in 2003 (13.2%) was above the 1999 level for the first time in four years. The amount of subsidies to enterprises increased by 63% in four years and 21% in 2003, accounting for 5.1% of total expenditures. The rate of growth of subsidies on final consumption lessened from year to year, and took up no more than 2% of the total in 2002 and 2003.

In past years, a major fraction of central government expenditures – nearly a quarter in 1999 – was debt servicing. This went down even in nominal terms in the following two years, but went up slightly in 2002, and more steeply in 2003, when it accounted for 14.3% of expenditures. Net debt servicing, the difference between debt servicing expenditures and revenues, stood at 710 billion forints in 2003, 7.4% higher than the year before but 6% lower than in 1999.

Social security funds ran deficits every year, less than 1% of GDP in 2000–2002, but 1.9% in 2003, when the amount was HUF 345 billion. The

annual deficit was overwhelmingly produced by the Health Insurance Fund – 89% in 2003. Social security revenues increased 1.6-fold at current prices over the four-year period, ending at HUF 2.5 trillion in 2003, 5% above the year before. In 2000, 90% of revenues were from contributions, but in 2001 and 2002 this proportion went down and even a rise in 2003 only brought it up to 85%. Much of the increasing expenditures was covered by a central government subsidy. Social security funds expenditures grew by 78% between 1999 and 2003, from HUF 1.6 to 2.9 trillion. There was no major change in the distribution of expenditures, 52–55% going on pensions, 30–32% on benefits in kind and 14–16% on cash benefits (disablement and accident pensions under retirement age, sick pay, etc.).

The financial surplus attained by **local governments** in the second half of the nineteen nineties (without privatisation revenue) turned to a deficit in 2000, but remained below 1% of GDP, and peaked at HUF 117 billion in 2002. For 2003, a deficit of about HUF 10 billion has been estimated. In 2003, local governments' revenues were 67% higher at current prices, and 19% higher by volume (calculated by the GDP deflator price index), than it had been four years previously. Over two fifths of revenues (46% in 2003) were assigned personal income tax and state support combined. Assigned personal income tax made up an increasing proportion of revenues from year to year, more than 16% in 2003. State support for operation and development made up a combined proportion of 30%. Of local governments' revenues, local taxes increased steadily, while institutional revenues and finance transferred from the Health Insurance Fund decreased slightly. Altogether, these items represented two fifths of local governments' revenues. Non-general government funding, mainly for development purposes, fluctuated in amount and proportion from year to year. Local governments' expenditures changed almost identically with their revenues, so that their accounts were in balance. Some four fifths of their expenditures was made up of current operating expenses, and the rest covered development and accumulation. Staff pay and contributions made up a rising proportion of operating expenses, 52–53% in 2000–2001, and then from 2002 onwards, owing to the rise in public employees' pay, more than 55%. Accumulation and development expenditures largely involve purchase of physical assets and financial investments. Local governments' bank deposits totalled nearly HUF 221 billion at the end of 2003, two thirds in at-sight and current accounts. Loans amounted to HUF 146

billion, four fifths of them with maturities longer than one year. The net creditor position of local governments slightly narrowed in 2003, as deposits diminished and loans increased. It amounted to HUF 75 billion at the end of 2003, against HUF 111 billion the year before.

The end-year balance of **extrabudgetary state funds** was positive every year except 2001, the sum of a deficit in the Labour Market Fund and a surplus in the Central Nuclear Fund. During the period, two thirds of the Labour Market Fund's revenues came from employer and 21% from employee contributions. Some three quarters of expenditures went on unemployment benefits, one quarter on employment and training subsidies, and one tenth on rehabilitation payments. The Central Nuclear Fund receives nearly all of its revenues from Paks Nuclear Power Station. Some was spent on preparing for the establishment up low and medium active waste deposits, expanding the temporary store for spent fuel elements, and operating waste deposits. Money paid in each year but not spent serves as cover for the final deposition of spent fuel elements in the future.

Gross central government debt increased – at current prices – from HUF 6.9 trillion at the end of 1999 to 10.6 trillion at the end of 2003, but as a proportion of GDP it decreased from 60% to 52%

in 2001, and then went up in the next two years to 57% at the end of 2003. Debt increased fastest in 2002, by HUF 1.5 trillion, but less than the general government deficit. In 2003, debt increased by HUF 1.3 trillion. The cause of this, in addition to the general government deficit financing was the weakening forint, which raised the forint value of foreign exchange debt by HUF 260 billion. Debt was increasingly owed in forints rather than foreign exchange, the proportions changing from 63–37 at end 1999 to 76–24 at end 2003. Loans also relatively declined in favour of state securities, which made up 89% of the total and 99% of forint debt at the end of December 2003.

The average gross general government debt in the European Union member states, in all four years, exceeded the 60% of GDP level prescribed in the Maastricht criteria. It stood at 64% at the end of both 2000 and 2003, and slightly lower in the two intervening years. In 2003, 9 of the 15 countries satisfied the 60% condition, the lowest being 4.9% in Luxembourg, followed by 32% in Ireland. The highest levels were 106.2% in Italy, 102.4% in Greece and 100.5% in Belgium. Of the accession countries, national debt is more than 60% of GDP in Cyprus (72.2%) and Malta (72%), and the lowest is in Estonia (5.8%) followed by Latvia (15.6%) and Lithuania (21.9%).

Structure of the economy

Ownership of the assets

By the mid-1990s, privatisation had largely taken its course, and in 1996, 70% of gross value added was generated by Hungarian- or foreign-owned private companies. (Ownership of companies is classified on the principle of majority ownership.) The proportion of GDP generated in the private sector has changed only slightly since then, and was 70.9% in 2002.

Distribution of value added by ownership sub-sector			
	(%)		
	2000	2001	2002
Public	28.4	27.4	29.1
Domestic private	49.6	50.5	49.0
Foreign controlled	22.0	22.1	21.9

Communal ownership continues to dominate in the non-market branches of the economy. It has a monopoly in the public administration and defence, and overwhelmingly prevails in institutions of education and health. The private sector has also entered the latter areas and is taking on an

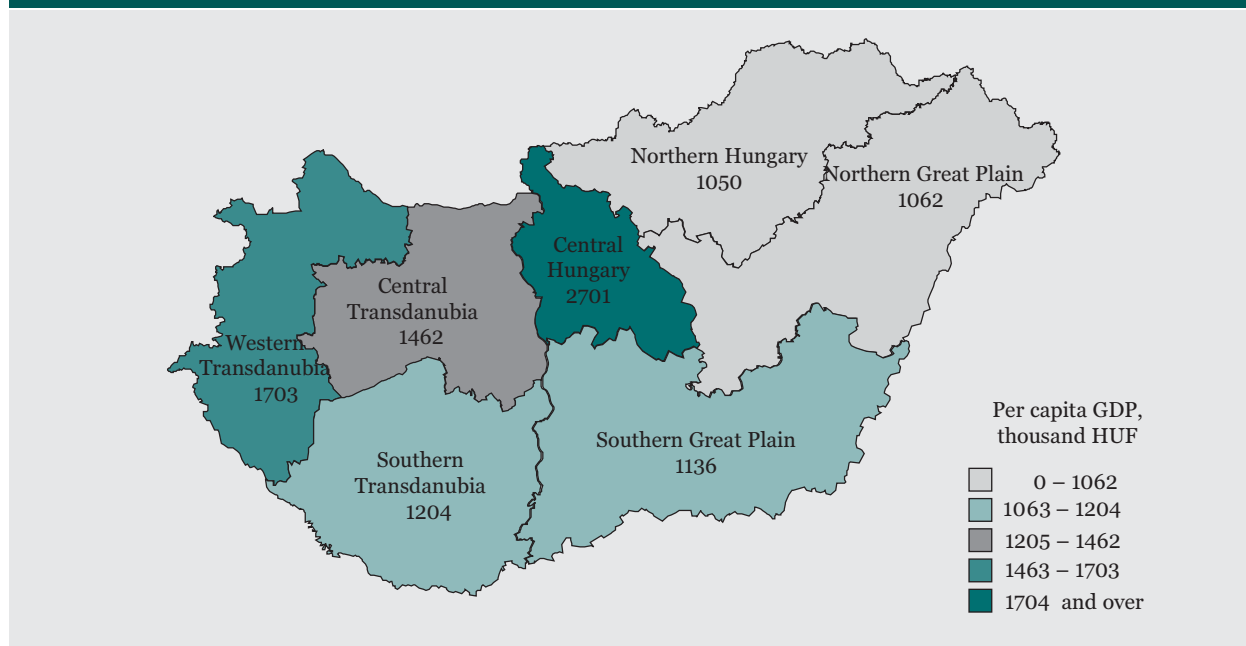
increasing role. The private sector represented nearly 30% of activity in health and social services and 16% of education in 2002. Communal ownership represents a major proportion of the transport, storage, post and telecommunications branch, where 46% of value added was generated in large state enterprises in 2002.

The rate of growth of **foreign ownership** has halted in recent years. Its 15-16% contribution to GDP in the mid-nineties increased to 22% at the turn of the millennium and has stayed constant since then. Foreign ownership is most prevalent in manufacturing industry, at 58%. The industries where its presence is most striking are manufacture of transport equipment (87%) and manufacture of electrical and optical equipment (77%). Over half of food industry output also comes from foreign-owned companies.

Geographical distribution of GDP

GDP is distributed somewhat unevenly among the regions. Recent changes have been slight and not in the direction of equality. In 2002, the three most developed regions – Central Hungary and Central and Western Transdanubia – generated 65.6% of GDP, despite having only about half

Per capita GDP by region, 2002
(at current prices, th. HUF)



(49%) of the population. This proportion was 64.4% three years previously, so that these regions extended their lead between 1999 and 2002. Over half of the population lives in the other four regions, but only 34-35% of production takes place there.

Of the country's seven regions, per capita GDP continued to be highest in Central Hungary. Its per capita GDP was 64% above the national average in 2002. In recent years, Northern Great Plain and Northern Hungary have alternated in bottom place on this scale. The latter was lowest in 2002, at 36% below the national average. The per capita GDP in Central Hungary was HUF 2,700,000, 2.57 times that in the Northern Hungary (1,050,000), the highest regional difference in the last eight years.

Sectoral structure of the economy

The restructuring of the economy associated with the change of political system and transition to a market economy had run its course by the mid-nineties. The second half of the decade saw only small shifts in the sectoral structure of the economy, owing to changes in external and internal market conditions and the reaction to these. By the turn of the millennium, the relative proportions of different sectors were approaching those of the European Union.

Agriculture contributes relatively more value added in Hungary than in the European Union, but the EU average hides wide differences. Agriculture

Portugal and Spain, where agriculture accounts for 3-4% of GDP, and Greece, where it is a strikingly high 7%.

The contraction of Hungary's agriculture in **2002** was caused primarily by the decreasing volume of produce, but there was also a decline in its profitability, as is borne out by the structural changes expressed at current prices. Agricultural production, and thus its contribution to GDP, declined further in **2003**.

Industry was the driving sector of the economy throughout the second half of the nineteen nineties and in 2000, steadily increasing its economic prominence. However, since it was in industry that the adverse effects of the world economic downturn showed up most quickly and most forcefully, this process faltered in 2001. 2001 was the first year for a long time that industry's added value stagnated, at a time when GDP as a whole went up by 3.8%. This trend continued in 2002 and the first half of 2003, and then turned round in the second half of the year, whereupon industry resumed its stimulating role in the economy.

Industry is more strongly represented in the Hungarian economy than in the **European Union** in general, but there is a wide spread in the figures for different member states. Industry constituted a strikingly high proportion of the Irish economy (33%), and was also strong in the German (24%) and Austrian (23%) economies. Most typical was a figure of between 19 and 22%.

It is a general rule that **services** make up an increasing proportion of economic output with increasing wealth. This was reflected in the steadily higher relative contribution of the service sector to value added in Hungary between 2000 in 2002. In these years, this general trend of increasing relative output of services was strengthened by the disproportionate effect on industry and agriculture of the world economic downturn, causing output in these sectors to decline or stagnate.

The service sector embraces an extremely wide range of activities, including trade, transport, telecommunications, and tourism-related services. Together, these services generate 21-22% of GDP. This proportion is almost the same in the European Union. A similar proportion of GDP was accounted for by real estate, renting and business activities, as well as financial intermediation combined. Non-market services represent 23% of value added.

Structure of the economy in Hungary and the European Union by contribution to value added

Gross value added	Hungary			European Union (15) 2002
	2000	2001	2002	
Agriculture	4.3	4.3	3.7	2.0
Industry	27.8	26.1	24.9	21.4
Construction	5.2	5.1	5.3	5.6
Services	62.7	64.5	66.1	71.0
All sectors	100.0	100.0	100.0	100.0

contributes just 1-2% in a third of EU countries, 2-3% in another third, and over 3% in the rest. The latter group comprises Finland, Ireland,

Prices

Price rises in the areas observed have risen relatively steeply over the last few years. In four large areas: agriculture, domestic industrial sales, construction and consumption, price levels went up by 32-35% over the four-year period. Investment prices went up more slowly, by 23%. Forint prices of external trade, including those of export sales, were strongly influenced by the forint exchange rate, which gained strength for most of the period from mid-2001 to mid-2003. In this period, the forint prices of exports and imports fell, so that over the four years as a whole, forint price levels rose modestly, by about 6% in exports and 10% in imports.

Consumption and capital prices increased at a progressively slowing rate from year to year. In agriculture, industry and construction, the slowdown in price increases lasted only until 2002, and was followed by a repeated surge last year. The trend was similar in external trade, with the difference that there was an actual decrease in forint prices during the last two years, although less so in 2003 than 2002.

Producer and investment prices

Agricultural producer price level in 2003 exceeded the 1999 level by 36%. This was mainly due to the rise in 2000, a much smaller rise in 2001 being followed by a fall in 2002 and then a 6% rise – similar to 2001 – in 2003.

Crop and horticultural product prices were 49% higher in 2003 than in 1999. They rose by an average of 20.5% in 2003 on the previous year, cereal prices rising most of all (by 33%). And of cereals, the biggest rise was in the maize price, owing to smaller maize production and a scarcity of fodder wheat.

The average procurement price of industrial crops fell short of the 2002 level last year. Higher production brought the sunflower procurement price down 22%. Potato prices went up significantly (by 51%) and sugar beet prices by 7%. The price of vegetables also went up strongly in the demand-pull market, by 23%. Fruit prices fluctuated between wide extremes in both directions, but on average were 18% higher than the previous year.

Livestock and animal product producer prices were on average 20.5% higher in 2003 than in 1999, but 6.3% lower than in the previous year. From February 2003, the procurement price of slaughter pigs decreased continuously, and only started to rise after the introduction of intervention purchases in July. The buyer's market and the unattainability of external sales – owing to the lack

of state subsidy – drove procurement prices down, and the annual level was 17% lower than in 2002. Dairy market problems and weak demand caused the procurement price of slaughter cattle to be 4% lower than the year before. The price of cow's milk, owing to overproduction, was less than the previous year's in 2003. Farmers received 4% more for slaughter sheep, and average procurement price for slaughter poultry decreased by 4%.

The procurement price of hen's eggs also decreased. The price of honey went up substantially (by 22%).

Price changes in 2003 further impaired farmers' income position. Indeed, producer prices stayed ahead of input prices only in one year – 2000, the reverse being true in the next three years. The terms of trade deteriorated slightly less in 2003 than in the previous two years.

Industrial producer prices increased by over 10% in 2000, and then at half that rate, about 5%, in 2001. In 2002, they actually went down by 1.8%, and although they started back upwards in 2003, the overall increase of 2.4% over the year was slower than in 2001. Producer prices over the four-year period were determined first of all by the continuous rise on the domestic market, but also by changes in the forint exchange rate and their effects on export prices.

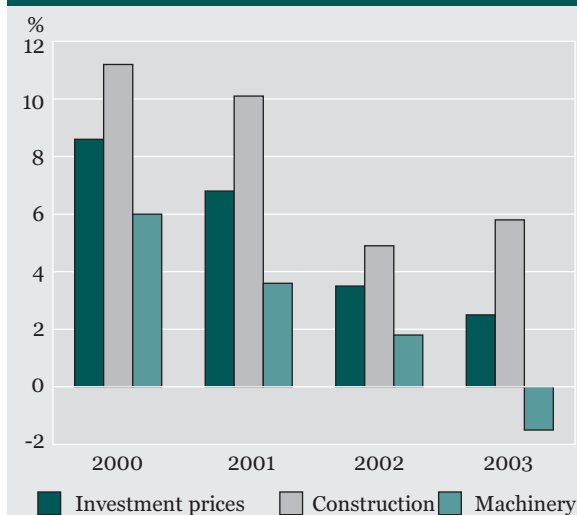
The 5% rise in domestic sales prices in 2003 was largely the result of an 11% rise in the electricity, gas, steam and water supply industries. Manufacturing prices rose on average by 3.5%, outstripped by chemicals and chemical product manufacture (6.8%), oil refining (5.4%), leather goods and footwear manufacture (5%), metallurgy (4.1%), construction materials (3.8%) and food (3.6%). The 0.3% rise of industrial export prices in 2003 was made up of a modest rise in the largest branches of industry, and a 2.6% drop in electrical and optical equipment. Producer prices rises on the year before were registered in manufacture of transport equipment (0.7%), manufacture of chemicals and chemical product (1.4%), metallurgy (1.9%), manufacture n.e.c. of machinery and equipment (2.5%) and food manufacture (2.8%).

In the European Union member states, the 1.7% rise in industrial producer prices in 2001 gave way to a 0.7% fall in 2002, and then a 0.6% recovery in 2003. The 2003 rise was the combination of a 1.6% rise in internal sale prices and a 1.1% fall in external sales prices. Of the accession countries, Latvia, Cyprus and Hungary had producer price rises of between 2.4 and 3.2%, the impetus for the rise being mainly internal in Cyprus and mainly external in Latvia. Industrial pro-

ducer prices in the Czech Republic, Estonia and Lithuania remained approximately level.

Prices of construction activities pursued by **construction** companies went up by 10-11% a year in 2000 and 2001, 4.5% in 2002 and 5.3% last year. Construction prices over the four years as a whole went up faster than domestic industrial prices, agricultural producer prices and the consumer price index. The accelerating rate of price rises last year was mainly due to price rise of construction basic materials, which dominate the index calculation. The slowdown of price rises in 2002 was mainly due to the raw material price rises having slowed to half, and wage rises to a third, of their rates in the previous year.

Change of investment prices on the previous year



The slowdown in **investment price** rises continued in 2003. Prices rose by 8.6% in 2000, 6.8% the next year, 3.5% in 2002 and 2.5% last year. Over the four years, investment prices rose by 23%, less than agricultural, construction or consumer prices. Construction investment price rise slowed to 4.5% in 2002 from 10% in 2001, but last year the stronger rise in raw material prices than the year before pushed it back up to 5.8%. Machinery investment prices increased more modestly than construction investment prices in all four years. The difference accumulated over the period, so that by 2003, construction investment prices had gone up by 36% and machinery investment prices by only 10% since 1999. Machinery investment price levels increased by 6% in 2000, 3.8% in 2001 and 1.8% in 2002, and then decreased by 1.5% last year, owing to a greater fall in imported machinery prices (2%) than

the year before, and a nearly 1% fall in domestic machinery prices.

External trade prices

The **forint price level of external trade turnover**, following a large annual rise in 2000, changed more modestly, and in varying directions, in the following years. The smaller increase in 2001 gave way to a decrease in 2002 and effective stagnation in 2003. The forint price level was dominated throughout by the exchange rate, whose trend changed twice during the period: the forint weakened in 2000 and the first half of 2001, strengthened steadily from the second half of 2001 until the first half of 2003, and then weakened again in the second half of 2003. The opposing exchange rate movements in the first and second halves of the year almost cancelled themselves out in 2003, as they had in 2001. The forint weakened by an average of 1% against key external trading currencies, but this included a 4% devaluation against the euro and a 13% appreciation against the dollar. The overall effect was a slow rise in the foreign exchange price level between 2000 and 2002, giving way to a small decline (around 1%) in 2003. After 2000, when import prices went up much faster than export prices, the changes were about the same in both sides of turnover. The overall 1999-2003 price increases were about 10% for imports and 6-7% for imports, in both forint and foreign exchange terms, the exchange rate changes in opposite directions having effectively cancelled themselves out over the period.

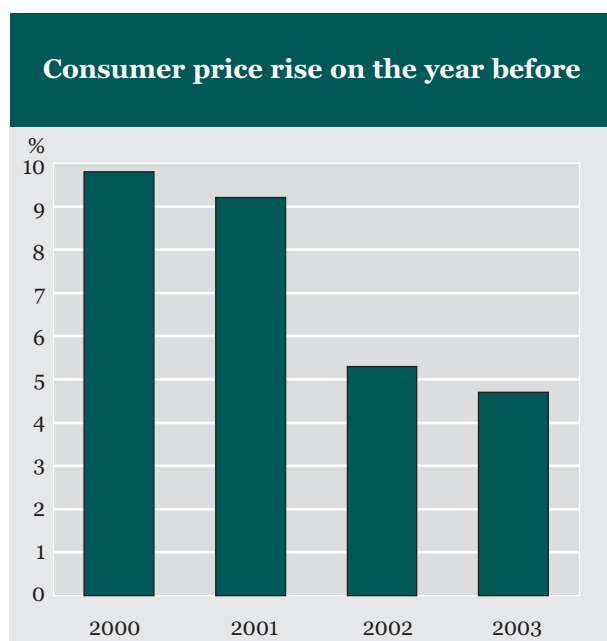
Of the decisive main commodity groups, forint prices of machinery exports and imports largely followed the exchange rate, except in 2003, when both the forint and foreign exchange prices decreased by 2-3%. Export prices thus approached their level of four years previously, and import prices were 1-2% higher than they had been then. In the manufactured products group, the prices increased in forint terms every year except 2002 and in foreign exchange terms every year without exception. Their 2003 levels were 2-3% higher than the previous year in both directions of the turnover, and 16% higher for exports and 13% for imports than four years previously. 2002 also saw a temporary break in the rise of food export forint prices, but even then, the drop was less than that of the exchange rate, and the foreign exchange price level climbed continuously. 2003 annual food export prices were 4% higher than the year before and 20% higher than in 1999. The sharp increase in energy import prices in 2000 was followed by a

smaller increase in 2001 but a substantial decrease in 2002. Prices rose again, by 4-5%, in 2003, to reach a level some two thirds higher than it had been four years previously.

Terms of trade, having severely deteriorated in 2000, changed only slightly in the following years, and in different directions. The terms of trade that took hold following the 2000 energy price rise thus proved lasting. In 2003, the terms of trade were 0.5% worse than the year before and some 3% worse than in 1999.

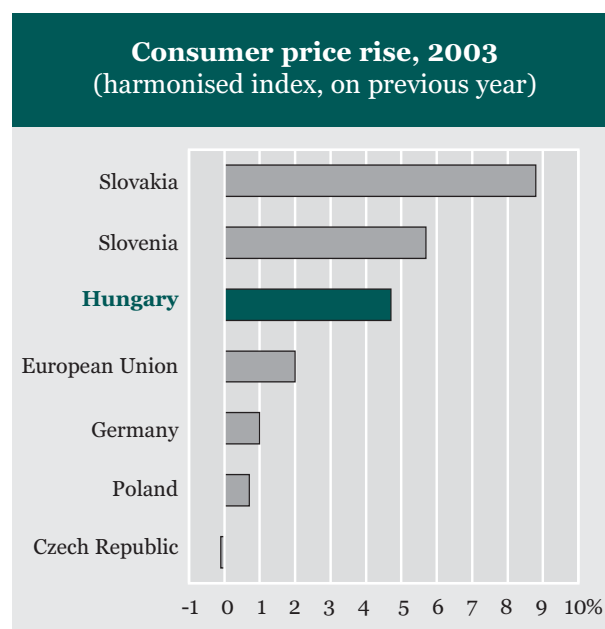
Consumer prices

Consumer price rise rate slowed down in every year between 2000 and 2003, gradually in 2000 and 2001, and then by nearly half in 2002. Inflationary effects at the end of the period caused the 2003 consumer price rise rate to be only slightly below that of the year before.



Consumer prices rose by a total of 32.2% in the period between 1999 and 2003. In the main consumption categories, the price of services went up by 35.7% during the period, and the price by food by 34.5%. Price rises of other articles fuel, accounting for 17% of consumption, were below average, 30.5%, and the highest rise of all was among alcoholic beverages and tobacco, 49.9%, although household energy also saw an above-average rise 36.2%). Clothing and footwear prices rose less than average, by 19.3%, and consumer durables, after the very small rise in the first two years and the fall in the second two, actually went down in price overall, by 0.3%.

Consumer prices went up by 4.7% on average in 2003 (after 5.3% in 2002). Further improvement was hampered by the prices of services, alcoholic beverages and tobacco, and household energy. Services inflation, having passed 6% in the second half of 2003, was 5.9% over the year, alcoholic beverages and tobacco inflation 10.7%, and household energy inflation, which also turned sharply upwards in the second half, 7.3%. Food, which accounts for nearly a quarter of consumer spending, had a disinflationary effect (despite quickening price rises in the last three months of the year), with an overall annual price rise of 2.7%. The same was true of other articles fuels (accounting for 17% of consumer spending) and clothing, where prices rose by 3.9 and 3% respectively. Prices of consumer durables actually fell by 1.4%.



Average consumer price rise in the European Union was 2% in 2003. The greatest price rises were in Ireland (4%), followed by Greece (3.4%), Portugal (3.3%) and Spain (3.1%). Of the accession countries (based on the harmonised price index, without Malta), the highest consumer price rise was in Slovakia (8.5%). Slovenia (5.7%), Hungary (4.7%) and Cyprus (4%) were in the middle band; Polish inflation was 0.7%; the Czech Republic experienced a slight decrease in prices (0.1%); and Lithuania a more substantial decrease (1.1%).

According to Eurostat figures, the overall consumer price rises in the European Union and the accession countries combined (EU-25) was identical with that in the member countries (EU-15) in 2003, at 2%.

Output in the main sectors of the economy

Agriculture

In 1999, over half of the country's agricultural **land area** was cultivated by private farms and 44% by enterprises. Although the amount of land used by private farms diminished, they were still cultivating 45% of the agricultural land area in 2003, because the country's productive land contracted by over 300,000 hectares. Enterprises' share of land use decreased to 41% by 2003, largely the result of a considerable reduction in land used by cooperatives.

Of the last four years, the volume of **gross agricultural output** increased only in 2001, but then by a very large amount. It decreased in the other three years. These changes resulted in the 2003 output being largely the same as the 1999 level and the 1996-2000 average. Crop output, with the exception of the bumper harvest of 2001, steadily decreased, and animal husbandry experienced small annual falls or rises of 3-4%. This all led to crop output in 2003 being about 8% lower, and livestock output 4-5% higher, than their 1999 levels.

Output was greatly influenced by extremes of weather: several droughts, of which that in 2003 was the most destructive in the last 50 years, hard winter frosts, late spring frosts, and floods. The uncertainties of the market are illustrated by the fact that despite a reduction in output, trouble in some areas (cereals, milk, pork) was caused by overproduction, often requiring government intervention. Agricultural products also failed to find their way on to the external market because procurement prices were above world prices.

The gross volume output of agriculture in 2003, by preliminary figures, was 95% of that in the previous year. The crop harvest was lower, but livestock output higher than in 2002.

Crop output – at the previous year's prices – was 12.5% down on 2002. Of all the branches of crop growing and market gardening, the deepest fall in output (25%) occurred in cereals. Accounting for nearly 40% of crop production by value, the cereal harvest was 8.7 million tonnes, nearly 3 million tonnes less than the previous year, and over 6 million tonnes short of the 2001 harvest. Having been sown on nearly the same area as the year before, only 2.9 million tonnes of wheat was produced, the smallest harvest in the four-year period. However,

wheat quality was better even than the outstanding level of 2002.

The weather had an adverse effect on average yields. The average yield of the main cereals was down on 2002, by 25% for wheat and 16% for barley. The 2003 average yield of wheat was the lowest in the last 30 years.

In 2003, the lowest maize harvest was recorded in the last 10 years. The 4.5 million tonne output was 26% lower than in the previous year and 43% than in the year before that. The decline was due to 5% less area being sowed and a 22% lower average yield than in 2002. 20-21% less potatoes and sugar beet were produced in 2003, mostly because of the deterioration of average yields. The 975,000 tonne sunflower seed harvest was some 26% up on 2002, due above all to the area sown, which was the largest in a decade and 22% larger than in 2002. Sunflowers were the least afflicted by the drought, and even the average yield increased, by 3%. Fruit production also increased, by some 10%.

The low cereal production in 2003 forced animal feed prices up sharply (by 30-40%), which took a further toll on the profitability of animal breeding. Animal breeders were also adversely affected by the external market prices which diminished the competitiveness principally of Hungarian pig and cattle breeding.

Animal husbandry output in 2003 was 3.2% higher than in 2002 (at the previous year's prices). Output in the cattle and pig sectors grew by about the same amounts (10%), and poultry output by 2%. The value of livestock for slaughter in 2003 was 11% higher overall than in 1999, and 4% higher than in the previous year. The volume output of animal products decreased by 5% in 2003, mostly because of declining cow's milk production.

In December 2003, there were 714,000 beef cattle being kept in the country, 56,000 fewer than the year before. The 337,000 dairy cows were 25,000 fewer than the year before. Beef cattle herds shrank in both enterprise and private-run farms, a total decrease of 143,000 (17%) on the year before. Enterprises kept 65% of the total cattle stock in 1999 and 68% in 2003. Declining numbers of cattle were sent for slaughter up till 2002, but dairy market problems pushed output in 2003 to some 10% above the 1999, and 19% above the 2002 levels. The tightening of quality requirements and the contraction of the market brought milk production down in 2001 and 2002. In 2003

it was another 5% under the 2002 level, and 4% under that in 1999.

The number of pigs kept in December 2003 was less than 4.7 million, 320,000 of these breeding sows. Both pigs and sows were much fewer than the previous year, following what proved to be a transitory rise in 2002. The ratio of prices for finished pigs to prices for feed continuously deteriorated, aggravating the uncertainties of pig breeding. The government purchase scheme for fattened pigs somewhat alleviated, but did not resolve, tensions in the pig breeding industry.

The number of pigs in 2003 was equivalent to 87% of that in 1999. There were 927,000 (32%) fewer on private farms and 250,000 (10%) more on commercial farms than in December 1999. At the end of 2003, enterprises held 57% of total stocks. The purchase subsidy for fattened pigs raised the number of pigs for slaughter in 2003 to 8% more than in 1999 and 15% more than the year before.

Sheep stocks expanded in 2003, as they had in previous years, the total number on 1 December standing at 1,281,000, which was 347,000 (37%) more than in 1999 and 178,000 (16%) more than the year before. Owing to the demand for fattened lambs, the number of cull ewes further increased on the year before, and was 25% above the 1999 level. Raw wool production was higher than in 2002, and 21% higher than in 1999.

Poultry stocks were 44.5 million at the end of 2003, 8.8% more than the year before. Chicken, hen, cock population increased by 2.6 million, and there were a third more turkeys and geese. Duck stocks fell by 22% during the year. Compared to 1999, the figure for poultry was 13 million (42%) higher, and that for chickens, hens, cocoks 8.7 million (34%) higher.

The steady increase of poultry for slaughter since 1999 gave way to a decrease in 2003, when the volume of output was 91% of the previous year's, but still 17% above that in 1999.

Output of hen's eggs increased in 2003, as it had the year before, and was some 8% higher than in 1999. The growth was led by exports, because the outbreak of poultry disease in the Netherlands greatly raised external demand for Hungarian eggs.

The volume of procurement of agricultural produce hardly changed from 1999. After a decrease in 2000, purchasing went up modestly in 2001, and then remained at the 1999 level for the next two years. The 2003 increase in procurement volume over the previous year was under 1%.

Industry and construction

Industrial output grew at widely fluctuating rates in the 2000-2003 period. After an 18.1% increase in 2000, the pace suddenly slowed down to 3.6% in 2001. The low point came in the third quarter of 2001 (a 1.6% decrease on the same period the previous year), and the subsequent recovery was gradual at first, the 2002 increase being 2.8%, but accelerated in the third quarter of 2003, bringing up the rise in output volume to 6.4% over the year.

In the last four years, the volume of industrial output rose 34%, mainly owing to external demand. Domestic sales volume went up by 9% in 2000, and then effectively stagnated in the next three years, bringing the overall four-year rise to 10%. Export sales also grew fastest in 2000 (by 27%), but the pace then slowed as the Western European economic downturn deepened, and continued at around 5-10% a year, so that external sales rose over the four years by a total of 62%.

The over-30% rise of industrial output took place at the same time that the number of people employed in industry decreased by 4% (as employment in the country as a whole increased by 3%). Productivity – industrial output per capita – grew faster than production, by 41%. The rate of increase of industrial investments over the four year period was less than half the average for the economy as a whole (24%). 2003 marked a break in this trend, since the rate of increase of industrial investments, in contrast to the previous two years' decline, and the 10.8% increase was above the national economy average for the first time in four years.

The increase in industrial output during the period stemmed above all from the performance of manufacturing industry. Mining output decreased by some 7% during the four years, and that of electricity, gas, steam and water supplies increased a little. The decrease in mining output is explained by the 80% drop in export sales, domestic sales having risen by a minimal amount. The stagnation of electricity, gas, steam and water supplies can be principally attributed to internal demand. Output in this branch declined in 2000-2001, but in 2002 and 2003, as internal demand revived, it achieved a 4% increase.

Industrial growth was concentrated in a few areas. The dominant industries (engineering and metallurgy) produced rises in output and sales, and of the smaller industries, there were rises in manufacture of wood products and in paper-making, publishing and printing.

Manufacture of electrical and optical equipment, the branch of engineering responsible for a quarter of all industrial output, more than doubled its output (105% increase), driven mainly by the 122% rise in export sales, domestic sales only rising by 20%. Here, too, the growth was very uneven: output increased by 54% in 2000, but only by 9% in 2001 and 5% in 2002, accelerating again only in 2003 (16%). Sales fluctuated to similar extents on both the home and external markets, but its export orientation intensified: 85% of output went for export in 2000 compared with some 90% between 2001 and 2003.

Manufacture of transport equipment increased by 39% in four years. Domestic sales rose faster than the industrial average, by 22%, but well short of the increase in exports (40%). The industry's output and export sales followed the ups and downs of industrial and economic performance in general, but the rise of domestic sales accelerated steadily.

The manufacture of machinery and equipment n.e.c. also increased by a substantial 67%. The basis of output growth was provided by export sales that nearly doubled during the period, while domestic sales increased in volume by 34%. The production and sales cycles of this branch of industry did not exactly follow the fluctuations of industry or even engineering as a whole. The rate of output and sales growth remained steady in 2001 (when the rise in overall industrial performance slowed down), and both output and export sales surged ahead in 2002, the former increasing by 32%, and the latter by 48%, on the previous year. In 2003, when entire industrial output resumed its rapid progress, the increase in machinery and equipment output was only 3%, domestic sales actually decreasing and exports increasing by only 8%.

Manufacture of basic metals and fabricated metal products (metallurgy) raised its output at about the average rate, and its domestic sales considerably faster (by 39%). Export sales growth fell short of the average (25%). Output and sales followed the fluctuations of industry as a whole during the period.

In the chemical industry, output in the 2000-2003 period grew fastest in the rubber and plastic products manufacture branch, by 51% overall. Manufacture of chemicals and chemical products increased by 17%, and oil refining decreased by 12%. The chemical industry's domestic and external sales followed similar trends: sales by rubber and plastic products manufacturers increased considerably (by 26% in Hungary and 84% abroad), and those of chemicals and chemical products less so

(domestic sales 1%, exports 30%). Sales from oil refining actually decreased (by some 10% on both the domestic and external markets). The rapid growth of rubber and plastics manufacturing defied the general industrial trend until 2002, but slowed considerably in 2003, with export sales actually falling and domestic sales growing only slightly.

Food industry production increased more modestly than the other branches of industry between 1999 and 2003, by a total of 7%. After expanding 6% in 2000, output stagnated in 2001, increased slightly in 2002 (by 2%) and hardly changed in 2003. The widest annual fluctuations were in domestic sales, which account for four fifths of the total. These decreased in volume twice during the period (2.9% in 2001 and 2.6% in 2003), so that the overall growth over the period was 3%. Food industry exports during the period increased overall by 15%.

Output and sales of textiles and textile goods followed a downward trend. Output in 2003 was 1.3% higher, and export sales 10% higher, than in 1999. The latter figure derives from increases in 2000 and 2001, because both output and sales decreased in 2002-2003.

The output of other non-metallic mineral product manufacture (construction materials) increased by 20% in 2000-2003, mainly owing to a 26% increase in domestic sales, export sales going up by 8%. Manufacturing industry not elsewhere classified (which embraces furniture manufacture) increased its output by 24%, its domestic sales increasing at three times the rate of the average for industry as a whole, and its exports by half the average rate.

Engineering increased its relative position in the structure of industrial production by one and a half percentage points, even though manufacture of transport equipment decreased by half a percentage point. The three sub-branches of engineering accounted for 44% of industrial output in 2003. Within engineering, manufacture of computers and parts contracted sharply, and 27% of engineering output comprised manufacture of radio, television and telecommunication consumer equipment. Chemicals lost nearly two percentage points in the output scale, largely due to the decrease in the proportion of oil refining. Food manufacture maintained a constant position. As a proportion of domestic sales, engineering was 1 percentage point lower in 2003 than in 2000 (in consequence from the decreasing proportion of manufacture of electrical and optical equipment), and the decrease in chemicals was over 3 percentage points (owing to the slippage of oil refining). In export sales, chemi-

cals held their position, and engineering relatively increased by 2 percentage points owing to increases in the proportions of exports by the manufacture of machinery and equipment n.e.c. and of electrical and optical equipment.

Change of output in branches of manufacturing, 2003

Industry	Change, %	
	on 1999	on 2002
Branches where output increased over 4 years		
Manufacture of electrical and optical equipment	104.5	16.3
Manufacture of machinery and equipment n.e.c.	66.7	3.3
Manufacture of rubber and plastic products	52.4	3.1
Manufacture of wood and wood products	34.4	4.0
Manufacture of transport equipment	38.5	13.5
Manufacture of basic metals and fabricated metal products	34.5	11.6
Manufacturing n.e.c.	24.4	-24.3
Manufacture of pulp, paper and paper products; publishing and printing	31.5	4.7
Manufacture of other non-metallic mineral products	19.7	1.9
Manufacture of chemicals, chemical products and man-made fibres	16.6	7.6
Manufacture of food products, beverages and tobacco	6.7	-0.5
Manufacture of textiles and textile products	1.3	-7.4
Branches where output decreased over 4 years		
Manufacture of coke, refined petroleum products and nuclear fuel	-11.9	-8.8
Manufacture of leather and leather products and footwear	-27.9	-23.3

In the analysis by workforce size category, output and domestic sales rose fastest among medium-sized enterprises in 2003, the increases being 8 and 7.3% respectively. Large enterprises achieved a comparable (7.1%) increase in output, but their export sales, at 12%, were well ahead of those achieved by medium-sized companies (9.6%). The output of enterprises with between 5 and 49 employees remained effectively unchanged, while their domestic sales increased by 2.5% and their export sales decreased by 10%. Output and sales remained strongly concentrated by company size in 2003. The highest concentration was in export sales.

The 57% rise of industrial output in Central Transdanubia in the 2000-2003 period was well ahead of the average. In the other dominant region, Central Hungary, the rise was about average, and in the third-highest producing region, Western

Transdanubia, output rose by 26% during the period. The slowest increase was in Southern Great Plain (19.4%). The regional fluctuations of industrial output growth followed the national pattern: fast growth in 2000, followed by a slowdown, and in places a downturn, in the subsequent two years, and then renewed acceleration in most regions in 2003, although even then, output growth continued to slow down in Southern Transdanubia and the Great Plain regions.

Composition of industrial output and sales, 2003

	Enterprise size category by number of employees				
	(%)				
	under 5	5-49	50-249	250 and over	Total
Output	4.2	8.6	16.2	70.9	100.0
Domestic sales	8.9	15.4	21.6	54.1	100.0
Export sales	0.2	2.6	11.5	85.7	100.0

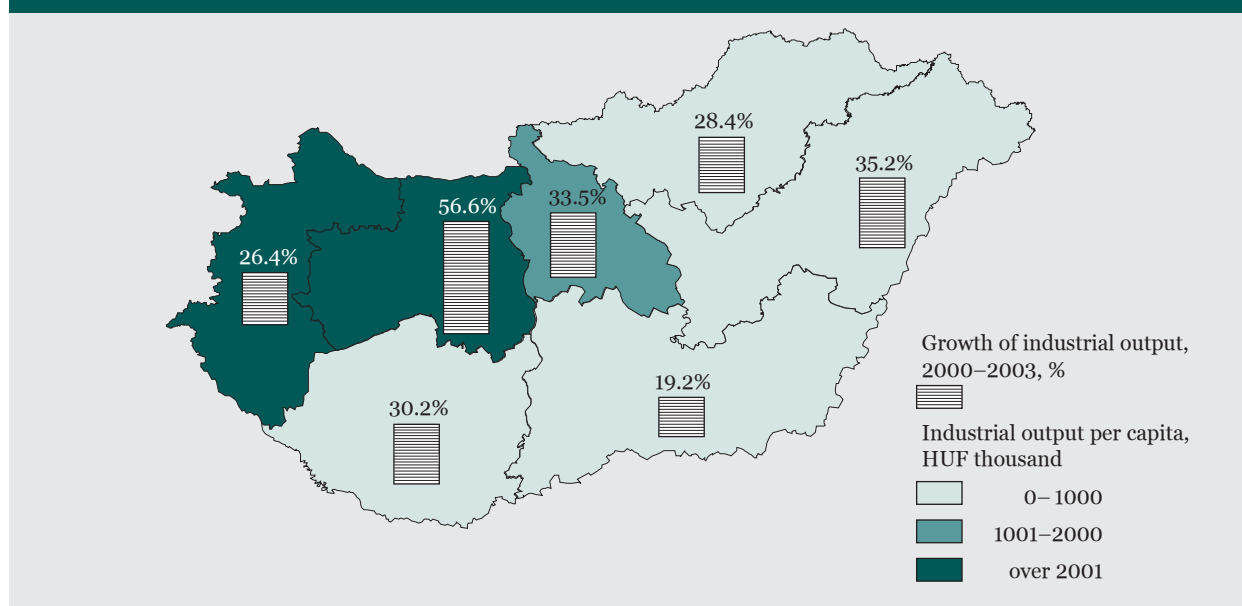
The **number of employees in industry** in 2003 was 6500 over the one million mark, and 4% lower than four years before. This is the same relative decrease as in the number of people employed in all companies surveyed – i.e. those with at least 5 employees – which account for eighty per cent of people in work. In this category of companies, the workforce shrank 32% in mining, 22% in electricity, gas, steam and water supplies, and 2% in manufacturing. The most severe job-losses within manufacturing industry were in oil refining (44%). There was a 25-28% loss of jobs in textiles, textile products, leather goods and footwear manufacture, over 10% in chemicals and chemical product manufacture, and the same percentage in construction material manufacture. There were increases in the numbers of employees in 6 branches of industry. The biggest expansion was in paper manufacture and publishing (31%), followed by manufacture of transport equipment (19%), of electrical and optical equipment (14%), then rubber and plastic product manufacture (13%) and wood and wood product manufacture (9%). The smallest increase was in metallurgy (3%).

Industrial output in the European Union effectively stagnated in 2003, as it had in the previous two years. The increase of 0.2% in 2003 was a positive movement in comparison with the 1% decrease the year before. Industrial output advanced by 0.5% in Germany, but dropped back

slightly in Italy, similarly to its movement in the previous two years. In the accession countries, industrial growth was 8.7% in Poland, 5.8% in the Czech Republic, 5.7% in Slovakia, and 1.4% in Slovenia in 2003. In the United States of America, industrial output, after a two-year decline, recovered by 0.3% in 2003, and the same occurred in Japan, although the growth there was steeper, 3%.

output was 38% higher than in 1999, owing primarily to the upsurge in state-subsidised house building, renovation of public buildings, construction of shopping centres and, from 2002, construction of motorways, bridges and sewers. The contribution of construction to net value added in 2002 thus increased to 5.5%, nearly the same as the average in EU 15 but lower than in the accession countries

Industrial output by region, 2003



Industry's proportion of value added at current prices declined steadily in the European Union between 2000 and 2003: from 22.4% in 2000 to 21.5% in 2001. There was a similar trend in the accession countries: industry's value added was on average 26.5% of the total in 2000, above the EU average, decreasing by 1 percentage point in 2001 and a further 0.3 percentage point in 2002. Among the accession countries, industry's proportion of value added was highest in the Czech Republic, at 30.8%, and lowest in Cyprus, at 12.4%. Industry provided over 20% of value added in most accession countries, and 25.2% in Hungary.

Industry provided an average of 18.3% of employment in the European Union member states in 2002. This proportion was higher – 23.7% – in the accession countries, and 27.1% in Hungary.

In 2003, **construction output** expanded by 0.7%. This constituted the continuation of a boom, however, since the 17.5% growth in 2002 brought the annual average increase in 2002–2003 up above the previous two years' average. By the end of 2003,

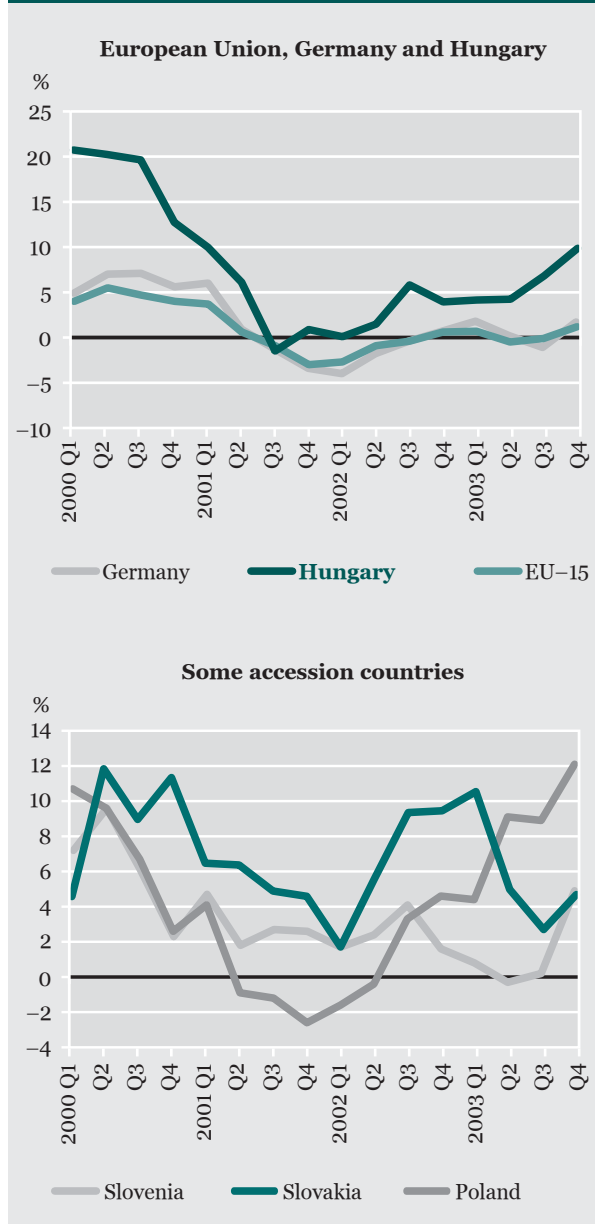
(where it was 6.2%). Investments by construction industry organisations fluctuated widely over the period. They stagnated last year, but increased overall by 40% over the four years to constitute more than 2% of national economy's investments. The number of employees working in the construction grew from 253,000 in 1999 to 300,000 in 2003, i.e. from 6.3 to 7.7% of all people in work, approaching the European Union average (in 2002) of 7.8%.

The main reasons for the slow growth in 2003, apart from the high basis level, were the protracted winter and a drop in demand, manifested in a significant decrease in the volume of contracts made during the year. Construction of buildings increased by 1.2%, after increases of 14–19% in previous years. Construction of other buildings (civil engineering works), after declining for two years, went up by 24% in 2002, on the strength of new road construction.

The principal contribution to maintaining the boom in 2003 came from the smallest companies, those employing less than 5 people, whose output

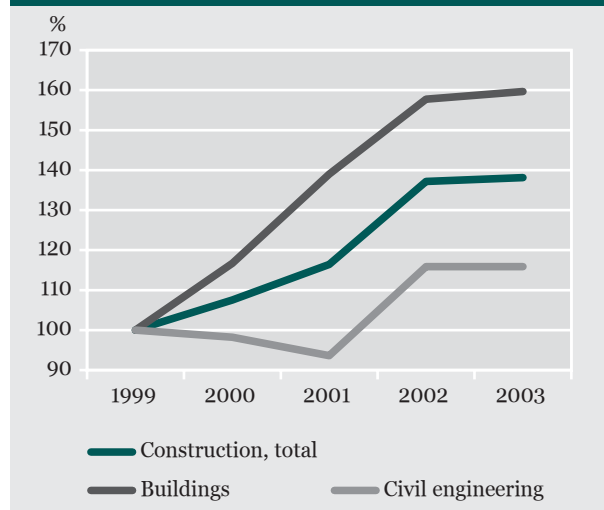
went up by 16.2%. The output of the largest companies, employing at least 300 people, decreased by 5.2% after a 25% increase in 2002.

Changes in industrial output compared with the same quarter of the year before



The regional figures only cover companies of more than 5 employees, whose output in 2003 was less than in the previous year. With the exception of Central Transdanubia, the output of companies registered in every region went downwards. Since 1999, construction boom has been stronger in the Great Plain regions and below average in the Transdanubian regions.

Change in construction output by main construction category (1999=100)



Construction companies have steadily increased their position in construction activity across the country, and non-construction organisations' construction activity and private building combined amounted to no more than 16% of the total in 2002, although the large number of houses built in 2003 led to a rise in private house building.

Transport, telecommunication and information technology

Enterprises in the transport sector moved 2% more mass of goods in 2003 than the year before. In terms of freight tonne-kilometres, their performance increased by 4% overall: rail transport raising its output by 3%, public road transport by 4 and pipeline transport by 5%. Water freight transport decreased.

Mass of goods transported in 2003 was 9% down on the 1999, but the freight tonne-kilometre performance indicator showed a slight rise over the same period. No changes occurred in the relative performance share of different forms of transport: public road transport – in terms of the freight transported by vehicles included in the survey (3.5 tonnes and larger) – accounted for 47% of the total, rail transport 30% and water transport 4%.

Inland freight transport output did not change much in 2003 from the year before in terms of either freight-tonnes or freight tonne-kilometres. Rail and public road transport continued the trend of the previous year: rail transport decreased, and road transport increased. Performance expressed

in freight-tonne kilometres decreased by 12% by rail and increased by 5% by road. The share of rail transport decreased to 17%, and that of public road transport increased to 73%.

The performance of inland freight transport was lower than in 1999, by 9% in terms of both total freight and freight tonne-kilometres. Public road transport made up 73% of the total in freight tonne kilometre terms in 2003, compared with 69% in 1999, but rail transport had fallen to 17% from 22%.

International freight transport was 5% higher in 2003 than the previous year in terms of both freight tonnes and freight tonne-kilometres. Output of rail and pipeline transport increased by 7% each, and that of public road transport by 4%. Rail goods transport accounted for 37% of the total, and road freight 33%. By contrast with inland goods transport, international performance was higher in 2003 than in 1999: there was a 14% increase in freight tonnes and 11% in freight tonne-kilometres. The relative share of different forms of transport in freight tonne-kilometres did not change much over 1999: rail transport increased from 34 to 37%, and public road transport decreased from 37 to 33%.

When **freight transport by companies outside the transport sector** is taken into account, performance in 2003 decreased by 1% in terms of freight tonnes, but increased by 6% in terms of freight tonne-kilometres. Compared with 1999, volume of goods transported decreased by 18% and freight tonne-kilometres by 2%. The fall in freight quantities was influenced by relative changes in the weights and quantities of freight, modernisation of haulage organisation and logistics, and the removal from the survey of vehicles under 3.5 tonnes in 2002.

Long-distance passenger transport carried 742 million passengers in 2003, 2% fewer than the year before but 5% more than in 1999. The 26 million passenger kilometres did not represent a significant change on 2002 but was 8% up on 1999. Different forms of transport accounted for almost unchanged proportions of these figures: rail, public road and air passenger transport were responsible for 39, 46 and 14% of the total respectively.

In 2003, a total of 88,500 flights arrived or departed from **Budapest-Ferihegy Airport**. This was a 13.5% rise on the year before. There were 81,300 commercial landings and take-offs, over half by Hungarian airline (MALÉV). **Airport passenger traffic** was 5 million in 2003 (of which 2.8 million were MALÉV passengers), 12% more than the year before. The majority of commercial

traffic was to and from Europe. 87% of passengers travelled on scheduled services. The favourite destination airports of these services were Frankfurt, London/Heathrow, Paris/Charles-de-Gaulle, Amsterdam and Munich. The main charter flight destinations were Monastir, Tel-Aviv, Aqaba, Hurghada, Antalya, Korfu and Tenerife Sur.

Passenger traffic by **local public transport** was 2.4 billion in 2003, somewhat less than the previous year, but equal to that in 1999.

There were 2.8 million **private cars** registered in Hungary on 31 December 2003. Their average age was 11.6 years in 1999, decreasing overall to 11.4 years by the end of 2003, although there was a temporary intermediate increase. There were significant changes in the ranking of cars by make during the period: Ladas, Trabants and Opels were commonest in 1999, but by 31 December 2003, Opel headed the list, followed by Lada and Suzuki. The number of cars registered for the first time in Hungary was the highest since 1990 in 2003: 274,000. This was 15% more than the year before and nearly 135,000 (97%) more than in 1999.

The number of calls initiated from fixed telephones (together with Internet call number figures) reached a peak in 1999 (4,250 million), since when it has fallen year by year, and stood at 3,454 million last year. The decrease is seen to be even steeper when the rapidly-increasing number of Internet connections is eliminated from the figures. The shift continued from local calls to other inland and particularly mobile calls. Local calls fell to less than 50% of the total, and mobile calls climbed to 23%. The average call duration did not change significantly during the period. A local call lasted 2.4 minutes on average, and long-distance and international calls somewhat longer, while mobile calls were over a minute shorter.

The number of calls initiated from mobile telephones rose abruptly at the turn of the millennium (77% in 2000), and in gradually decreasing increments thereafter (7% last year). The number of calls and their total duration both grew more than 3.5-fold from 1999 to 2003. The number of calls initiated from mobile networks was 44% higher than that from fixed networks in 2003, but their total duration was 19% shorter (not counting Internet calls in the fixed network figures). This was because of different call duration. Mobile telephones increased their advantage in terms of number of calls, but the total call duration was down on 2002. In 1999, nearly a third of calls from mobile telephones were to fixed networks, but last year this was down to a tenth. There was a slight relative shift towards calls

to other mobile networks in 2003, the proportion rising to 31%. Calls within the same network constituted 57% of all mobile telephone calls.

The number of Internet connections via modem and ISDN lines increased by 25% last year, although the total duration of each went down by the same amount, owing to the decrease in average call time from 33 to 19 minutes. The proportion of switched-line Internet subscriptions decreased from 81 to 58% of the total last year.

Total radio air time (duration of broadcast) was 830,000 hours, up 3% on 2002 and 9% on 1999. Television air time (duration of telecast) totalled 1,938,000 hours, an increase of 2% since 2002 and 14% since 1999.

Of the standard postal services, the gradual increase in the number of letter post consignments and transferring cheques continued, both by 3.1%. The number of parcels sent, after stagnating for several years, decreased by 15%. Last year, 21% fewer telegrams were sent than the year before, a larger fall than in previous years.

Retail trade

Turnover in retail shops increased steadily and substantially over the three years to the end of 2003. Trade calculated in accordance with Eurostat practice – i.e. without vehicle and fuel sales – grew by 4.1% in 2001, and at almost equal rates in 2002 and 2003 – 8.7 and 8.8% respectively.

The combined figures for the 15 member states of the **European Union**, as published by Eurostat, show that in most months of 2003, there was a increase in retail trade of between 0.4 and 3.2% compared with the same month the year before, and a decrease of between 0.1 and 0.9% in three months. This corresponds to a very modest increase over the year. Of the member states, the fastest increases were in Greece and Sweden, and the fastest decrease in the Netherlands. In the accession countries group, the fastest increases were in Latvia and Lithuania, and there was substantial decrease in Slovakia. The increase of Hungarian retail trade is high by European Union standards, and towards the front of the field among the accession countries.

2003 retail trade – again without vehicle and fuel sales – divided in the proportions 47-53 between specialised and non-specialised food stores, and non-food shops. **Retail sale turnover in specialised and non-specialised food stores**, following a decrease in 2000, increased steeply

from year to year, and in 2003 was 8.1% higher than the year before and about a fifth higher than in 1999. The increase was mainly observed in shops selling a variety of products (hypermarkets, supermarkets and general stores), whereas sales of food in specialised shops decreased in both absolute and relative terms. (These accounted for 8.5% of sales in specialised and non-specialised food stores in 2003, a decrease of more than 3 percentage points in two years.)

In retail trade of **non-food products**, sales were highest in furniture, household goods and hardware shops. Growth was very fast in this group during 2000, more modest in 2001 and 2002, and strong again in 2003. Sales in 2003 were 8.7% higher than the year before and nearly 1.4 times their 1999 level. Nearly the same rate of increase (although on a much smaller base) was attained by sales of other goods in non-specialised stores: 7.6% in 2002 and 35% over the four year period. In textile, clothing and footwear shops, after a substantial decrease in 2000, sales increased at an accelerating pace from 2001 onwards. Their 2003 sales were 12.5% up on the year before and 18% up on four years previously. A similar trend was followed by shops selling books, newspapers, paper and other hardware. Sales growth there was 11.4% in 2003 and 21% during the period as a whole. Sales of certain products in the computer and photographic and other electrical items categories increased very strongly in 2003, particularly in the second half, largely as the result of the government-financed Sulinet programme. Retail sales of pharmaceutical and medical goods, cosmetic and toilet articles grew somewhat modestly in 2003 and over the period as a whole (4.2 and 8% respectively). Retail trade of second hand goods and mail order trade are of minimal significance, although their sales grew at a high rate throughout the period.

Sales of vehicles and fuel, recorded outside retail trade, and equivalent to about four tenths of retail sales, also followed a rising trend. Business in 2003 divided in the proportions 60-40 between retail sales of vehicles and parts and retail sales of vehicle fuel. The increase was strongest in sales of vehicles and parts: by 11.7% in 2003 and a total of 75% over the four-year period. Sales of fuel increased significantly only in 2002, and were only 1.1% higher the next year, ending about a tenth higher than the start of the period. **Total retail trade turnover (including sales of vehicles and fuel)** increased nearly 1.3-fold over the four years, and 8.5% in 2003.

Energy use

Hungary's energy use alternately increased and decreased in the years 2000-2003. It went up by 0.7% in 2000, down by 3.2% the next year, up by 1% in 2002, and down again in 2003, by 3.2%. The sum of these ups and downs was a 4.7% increase in energy use over the period, to 1092 petajoules in 2003, 33 petajoules higher than the year before. The growth of 16% in GDP and 4.7% in energy use over the four years imply that energy use per unit GDP continued downwards, by a total of 10% over the period, although it went slightly upwards in the last year.

A rising proportion of primary energy over the period came from imports. These accounted for 59% of the total in 2000 and 64% in 2003. Primary energy production decreased by more than 8% over the period, and this applied to every category. The change was downward in every year except 2002, when there was a 2% increase. Coal extraction decreased in 2000-2002, and increased by 1% in 2003. There was a similar trend in hydrocarbons, where the 1% upturn in 2003 was the result of an 8.1% increase in oil extraction. Nuclear power generation stagnated in 2000-2001, increased by 5% in 2002, and then, owing to the breakdown of Block 2 of Paks Power Station, decreased by some 20%.

Declining production and rising use forced imports up every year between 2000 and 2003: by 2% in each of the first two years, 5% in the third and 9% in the fourth. Imports of crude oil, which constitutes much of the total, increased in 2000 and 2003, but decreased in the intervening two years, thus decreasing overall by 9%, but natural gas imports increased every year, and at a steadily quickening pace (13.6% and still accelerating in 2003), by a total of 35% over the period. Following a low basis in 1999, electricity imports tripled in 2000 and then declined steeply in 2001 and 2002. Subsequently, to replace the loss of generation at Paks, there was another rise in 2003, and imports were 63% up on the year before.

Coal and hydrocarbons maintained their proportions of primary energy production during the four years. Nuclear power provided 31% of electricity generation in 2000 and 28% in 2003. In imports, oil decreased relatively by 8 percentage points to 28%, and natural gas increased by a similar amount (7 percentage points), while electricity imports, having gone down to 2% in 2002 from the 5% in the two previous years, went back up by 1 percentage point in 2003.

Industry's energy use went up by around 2% in 2000-2001, down by 1% in 2002, and then up again by 0.5% in 2003, resulting in an overall increase of 3.6% over the four years. In construction, mainly owing to the 6.8% upswing in 2001, energy use increased by 8%, in agriculture it decreased by 9%, and in transport, storage, post and telecommunications it decreased by 1.6%. Household and communal energy use both increased by 6.8% between 1999 and 2003, largely owing to the 4-6% increases in 2001 and 2003. Energy use by the productive sector stayed practically constant over the four years, but there was an increase of 6.9% in the non-productive sector.

There were small changes in the distribution of energy use among branches of the economy in 2000-2003. Industry accounted for 34% of the total, 1.3 percentage points less than at the beginning, households for 38.3%, 1.5 percentage points more, and communal and other users for 18.9%, about half a percentage point more. Energy use in the productive sector decreased by about 2 percentage points relative to the total, from 44.5% in 2000 to 42.7% at the end of the period.

Primary energy production of the European Union, after a 0.6% decrease in 2001, went down by another 0.8% in 2002. Net imports also remained below the previous year's level, so that energy use was 1.4% below the level it had been in 2001 (when it had been 2.3% above the previous year's). The biggest decreases in energy use in 2002 were in primary electricity (by 10.2%) and coal (4.5%). Net energy imports accounted for 52.9% of energy use in 2002, a rise of some half a percentage point on 2001.

Energy use						
Year	Petajoules	Change on preceding year, %	Productive sectors		Communal sectors and households	
			proportion, %	change, %	proportion, %	change, %
2000	1 036	-0.7	44.6	1.0	55.4	-1.9
2001	1 069	3.2	44.0	2.0	56.0	4.2
2002	1 059	-1.0	44.0	-1.1	56.0	-0.9
2003	1 092	3.2	42.7	0.2	57.3	5.5

Finance

Deposits and loans of the non-financial enterprise sector

Total domestic **credit** of non-financial companies increased by some 81% at current prices between 1999 and 2003. The annual rises in credit were highest in the first (30%) and last (20%) years of the period, and lower in the intervening years (under 10%). The increase manifested itself mainly in foreign exchange credit, which more than doubled (+112%) by the end of the period, chiefly owing to annual rises of 40–50% in 2000 and 2003. Forint loans went up somewhat more slowly, by 65% overall. The total domestic credit of non-financial companies went up from HUF 2442 billion in December 1999 to (at current prices) HUF 4.4 trillion by the end of 2003.¹³

The main provider of non-financial companies' credit is the banking sector, which lent a total of HUF 4.0 trillion to these companies by the end of 2003 (over 90% of the total domestic credit of non-financial companies). At the end of 2003 of business credit extended by the banking sector, large companies had 57% and micro, small and medium-sized companies 43%. Of the latter 43%, medium-sized enterprises had 17.5%, small enterprises 8.8% and micro-enterprises 16.6%. The overall increase in credit extended by the banking sector to non-financial companies was 22.7% in 2003, the increase being somewhat less for large companies (18.4%) and more for micro, small and medium-sized enterprises (29%). The fastest rise in bank credit (41.7%) was to small enterprises.

Bank deposits by non-financial companies increased to a similar extent as credit, by 80% to HUF 2.4 trillion during the four years. Taking forint and foreign exchange deposits together, the annual increases were relatively balanced, around 13–19%. Forint deposits increased by 79% and foreign exchange deposits by slightly more, 85%. 2002 was an exceptional year for forint deposits, which went up 21%, as against 12–16% in the other years. Foreign exchange deposits had an even more peculiar year in 2001, when they went up by 32% as against 11–14% in the other years.

Net credit, the difference between total credit and total deposits, was 82% higher in December 2003 than in December 1999, at 2.0 trillion forints.

Net forint credit increased by 37%, much less than the 123% of net foreign exchange credit. After high growth in 2000, net credit went up by 4% in 2001, shrank by 8% in 2002, and then grew again by nearly 30% in 2003. Net foreign exchange credit actually decreased on the previous year in 2001, as did net forint credit in 2002 and 2003, as the result of deposits rising faster than credit.

In four years, the real value of net credit, calculated by applying the GDP deflator price index, increased by 29.5%. Credit cover by deposits, from 50% in 2000, increased in 2001 and 2002 to 57% at the end of 2002, and then decreased by 3 percentage points up to the end of 2003.

Household monetary assets*

Household gross monetary assets, at current prices, had gone up some 1.8-fold by the end of December 2003 to HUF 13.8 trillion over the preceding four years, a rise of 36% at comparable prices. The rate of increase at current prices slowed from year to year, but at constant prices it accelerated until 2002, and then went down to below 6% in 2003. Total accumulated savings were equivalent to about three quarters of GDP in 2003. In European Union member states, the rate of saving displays a declining trend, but the accumulated total is relatively considerably higher than in Hungary. At the end of 2000, accumulated savings in member states were on average 2.3 times GDP. In individual countries, the highest level was in Belgium, at a factor of 3.1, and it was nearly as high in Great Britain and the Netherlands, at a factor of 3. Even in Austria, where accumulated savings were lowest, the figure was equivalent to 135% of GDP. Per capita savings in European Union average HUF 13.2 million, or HUF 5.1 million at purchasing power parity, as against HUF 1.4 million in Hungary at the end of 2003.

The main forms of saving accounted for varying proportions of gross monetary assets during the period, except cash assets and insurance premium reserves, which both increased steadily. The latter increased relatively from 7.8% in 1999 to 13.2% at the end of 2003, during which the amount tripled to HUF 1.8 trillion. Within this form of savings, it

¹³ On the basis of figures published by the National Bank of Hungary in a new structure since 2003.

* Source of data: National Bank of Hungary.

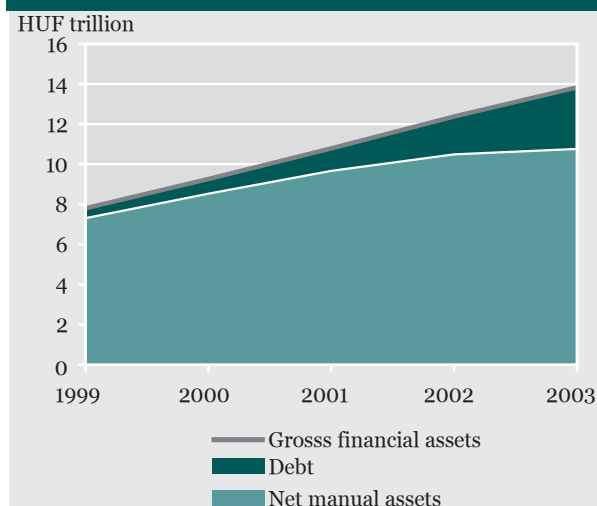
The figures for Hungary depart from what were previously published. From 2003, the Hungarian National Bank prepares the household monetary assets statistics by applying the same methodological rules as are used by HCSO for compiling the national accounts. Accordingly, the non-stock exchange shares and stakes owned by households have been added to what was included before, the category of securities and other creditors and liabilities has been expanded, and loans provided to households by non-monetary institutions are monitored.

was cash assets that increased fastest (4-fold), so that security reserves accounted for six tenths at end 2003, against only 40% four years previously. The largest proportion of savings, nearly 43% in 2003, remained in cash and savings deposits. This was less than before, basically because of the decline in foreign exchange savings following the introduction of whole-scale forint convertibility, the abolition of the travel currency limit and the wider spread of bank cards that may be used abroad. The proportion of forint deposits increased, and that of cash slightly decreased. Cash and savings deposits together totalled HUF 5.9 trillion at the end of 2003, one tenth held in foreign currency. Stocks and shares represented a steadily increasing proportion after 1999, but decreased slightly in 2003, when they were about a third of total savings. A rising proportion of the HUF 4.8 trillion total, some eight tenths at the end of 2003, were non-stock exchange shares and stakes, another 14% were investment bonds and the remainder stock exchange shares. The latter, at HUF 82 billion, were less than even the nominal value in 1999. The total amount held as non-share securities – predominantly state bonds and treasury notes – increased more slowly than the average growth rate of gross monetary assets as a whole, so that they declined as a proportion of savings to about 8% at the end of 2003, at HUF 1.1 trillion.

Household debt went up from HUF 497 billion at the end of 1999 to 3.1 trillion at the end of 2003, a 6.2-fold rise at current prices and 4.7-fold rise in volume. Three quarters of this very large rise in credit arose in the last two years. The increase was accompanied by a major rearrangement among the different types of credit. Real estate loans extended by monetary institutions, which had made up a quarter of debt four years before, constituted half of all debt, amounting to HUF 1.5 trillion, at the end of 2003. Consumer and other credit

extended by monetary institutions relatively decreased as a proportion of debt over the period from three fifths at the end of 1999 to a quarter at the end of 2003. Other credit also increased steeply, to HUF 700 billion or 23% of the total. Average household debt in European Union member states was equivalent to 61% of GDP, the highest figure being in Denmark (98%), followed by the Netherlands with 85%, and the lowest figures were in Italy (30%) and Finland (32%). In Hungary, in consequence of the very fast rise in credit, household debt increased from 4.4% of GDP in 1999 to 16.5% in 2003. This brought household debt up to the equivalent of 22% of gross monetary assets, compared with the European Union average of 27%. The latter covers such extremes as 67% in Denmark and 41% in Germany at one end of the scale, and 31% in Italy and 14% in Belgium at the other.

Household net manual assets (end-year, at current prices)



As gross household monetary assets have grown at decreasing rate, and household debt at a dynamic one, the growth rate of the difference between them – **net monetary assets** – has slowed down from year to year. From HUF 7.3 trillion at end 1999, net monetary assets went up by about a half at current prices to HUF 10.8 trillion at end 2003. The volume of net monetary assets (filtering out the effect of consumer price changes) increased by 13% overall between end 1999 and end 2003, including an increase of 16% to 2002 and an annual decrease of 3% in 2003. In GDP terms, net monetary assets decreased from 64.2% at end 1999 to 58% at end 2003.

The amount of households' net savings transactions, at 2002 prices, raised household savings by HUF 499 billion in 2000. This amount was 25% higher in 2001, but fell back to 60% of that year's level in 2002. This process continued in 2003, mainly owing to the rise in credit, and reduced total savings by HUF 114 billion.

Forint deposit and loan interest rates*

Market interest rates for non-financial corporate sector, and those for households, followed a downward trend until October 2000. That was when the central bank raised interest rates in response to lively rise in CPI, and the commercial banks followed suit. In 2001 and the first few months of 2002, interest rates in all sectors went down again. Subsequently, again by consequence of the central bank's interest rate measures, a slight rising trend set in. This turned round at the end of 2002. Interest rates started to decrease, and this process held until the central bank's 1 percentage point interest rate rise on 1 June 2003. In July there was a further central bank rate rise of 2 percentage points, followed by another in November, of 3 percentage points. Loan rates moved with base rates almost in their entirety, but the effect was less perceptible in deposit rates. The latter underwent major change only after the November base rate rise.

In the **enterprise sector**, interest rates for short-term deposits (maturing within one year) went down from 11.9% at the end of December 1999 to 5.1% by the end of March 2003, but rose to 11% by the end of the year. For long term deposits (maturing after more than one year), rates decreased from 13 to 5.1% over the same period, and back up to 10.8% at the end of 2003. Enterprise sector short-term loan rates decreased from 15.4% in December 1999 to 13.4% by end 2003, although they fluctuated around 8% between December 2002 and June 2003, and long term rates decreased from 15.8 to 13.1%. In the first half of 2003 they were under 10%. The gap between short term loan and deposit rates narrowed from 3.5 percentage points in December 1999 to 2.3 percentage points by the end of 2003.

Average **household** interest rates were lower for deposits and higher for loans than in the enterprise sector. Interest on at-sight and current

deposits decreased from 5.7% in December 1999 to 2.2% in December 2003, on short-term deposits from 11.3 to 10.1%, and on long-term deposits from 11.9 to 8.1%. (Term deposits interest rates decreased steadily between these two dates, and were around 5% in the first half of 2003.) Interest rates on household loans varied according to type of loan, maturity, and whether they were fixed or variable-interest loans. The highest rates, over 20%, were on consumer loans, with credit charges at around 30%. Interest on housing loans at market conditions decreased from 22% at end 1999 to 12% at end 2003, when credit charges were 16%. Interest on subsidised housing loans were 2.75 + 1.75 handling charge, rising to 6% as base interest rates increased. The average interest rate of loans for other purposes was 14.8% at the end of 2003. The interest gap between personal loans and deposits remained higher than in the enterprise sector, but had slightly narrowed from what it had been in the past.

Exchanges

The annual **immediate business (cash turnover) of the Budapest Stock Exchange (BSE)**¹⁴ at market value decreased from HUF 8 trillion in 1999 to hardly more than half that in 2000, and then went down to only four tenths of the latter amount in 2001. Turnover then recovered by 13% in 2002 and by 20% in 2003, when it was HUF 2.2 billion. 83% of this business was in shares, 7% in state bonds and the remainder other stock exchange traded securities. This is a significant shift from the 1999 proportions, when shares made up 43%, state bonds 41% and treasury bills 16% of the total. Of share turnover in 2003, bank shares accounted for 30% of trading, oil refining 27%, telecommunications 19% and pharmaceuticals 18%.

The number of transactions did not follow the trend in turnover, rising in 2000, and then decreasing from year to year, to end up at 718,000 in 2003, less than half the 1999 level. The value of 3.1 million forints per 1 transaction in 2003 was equivalent to about six tenths of the 1999 figure, but represented a 24% rise on 2002.

The number of securities quoted on the BSE was 112 in 2000 and 2001, rising to 120 in 2002 and 133 in 2003. The increase derived from debenture

* Source of data: National Bank of Hungary.

¹⁴ Source of data: Budapest Stock Exchange.

bonds, which were introduced in 2001, while the number of shares and state bonds decreased.

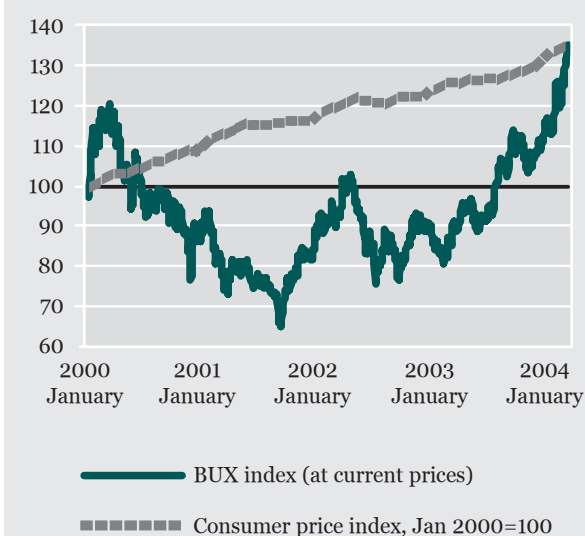
Stock market capitalisation (the total value at market price of securities traded on the stock exchange) increased from HUF 7.3 trillion at end of December 1999 to HUF 10.4 billion at end 2003, a fall in GDP terms from 64.1 to 56%. Between 2000 and 2002, shares steadily declined as a proportion of capitalisation, the result partly of stock exchange withdrawals and partly of falling share prices, but recovered in 2003, when they constituted a quarter of total capitalisation. The proportion of state bonds increased spectacularly, by 20 percentage points to 48%, and that of other securities remained practically unchanged. At the end of 2003, the distribution of capitalisation by business sector was led by pharmaceuticals at 25%, followed by telecommunications at 22%, banks at 19% and oil refining at 16%.

The BSE share index (BUX) was rising fast at the beginning of 2000, and passed the record mark of 10,000 points in February. In mid-April, the New York stock exchange index recorded its largest-ever daily fall, which took its effect on the BUX, and the index fell below 8000. It then continued downward more gradually, but was under 7000 by early December. In the following period, the New York and European stock exchanges fell further, and the BUX passed below the 6400 mark in early April 2001, fluctuating around the 6500–7000 mark in the ensuing months. At the news of the terror attack on the United States, it fell below 5700 by mid-September, and only recovered to above 7100 in the last month and a half of the year.

In the first months of 2002, the index rose overall, and approached 9000 points in the first days of May. Subsequently, in consequence of the pessimistic mood on the international stock exchanges, coupled with the indications of deterioration in Hungary's macroeconomic indicators and the situation attending the rise of gas and pharmaceutical prices, the BUX went down again. The drop in prices in the run-up to the Iraq war in early 2003 and the restrained rise following the commencement of hostilities caused the BUX to fluctuate around 7–8000 points until the middle of the year. In July, a steady rise began, the index passing 9000 points again on the last day of August, and the previous record, 10,000 points, at the end of January 2004. On the appearance of improving signs for the economy, the index passed the 11,000 point mark at the end of March, reaching its highest value ever.

At the end of March, the BUX closed at 10,922 points.

The Budapest Stock Exchange Share Index (BUX), percentage values
(4 January 2000=100)



Between the beginning of January 2000 and the end of March 2004, the BUX index increased by some 35% at current prices, almost the same as consumer price level.

Between the end of 2002 and the end of 2003, the BUX rose by some 20% in forint terms and 30% in dollar terms. In 2003, the Central European Share Index (CESI) rose by nearly 10%. The American Dow Jones index went up by 31%, the Frankfurt DAX even more, by 37%, but the London FTSE by only 14%.

On the BSE **futures** market, turnover rose slowly in 2000, then fell by half in 2001, and rose by 12% in 2002 and 67% in 2003, to 1405 billion forints. Some half of trading was transactions in shares, 29% in foreign currency and 23% on the BUX deals. In 1999, the latter accounted for 87% of turnover.

Turnover on the **Budapest Commodities Exchange (BCE)**¹⁵ rose steadily for several years until 1999, when it fell by 30% on the year before. The subsequent rise lasted through 2000 and 2001 but turned round in 2002, when annual trading was only some 11% above the 1999 level, at 453 billion forints. A spectacular increase followed in 2003, when trade increased 2.6-fold to 1045 billion forints, but this was still equivalent to only three

15 Source of data: Budapest Commodity Exchange.

quarters of the record year of 1998. The trade fluctuations were reflected in the volume of contracts, which increased in number 2.3-fold to nearly 3.7 million in 2003, but this was still hardly more than 40% of the number in the peak year of 1998.

A dominant and rising percentage of trade, accounting for 93% of turnover and 99% of volume (contracts) was conducted in the financial section, and the rest in the grain section. Some nine tenths of the financial section's turnover was in futures and the rest was in option transactions, introduced in 2001.

On the financial section's futures market, the euro transactions' share of turnover increased over the four years to 2003, to 48%, while USD transactions' share went down to 30%. The next largest proportion was represented by cross contracts, introduced in May 2003, with 8.3%. 95% of the financial section's options turnover was in euro transactions, and the remainder was made up of dollar transactions and the two currency cross contract types.

Insurance sector*

The number of **insurance companies** has not effectively changed in recent years. 30 companies were operating in Hungary in 2003. They had nearly 13.3 million policies, divided 28–72% between life- and non-life insurance, proportions effectively unchanged since 1999. The number of policies as a whole increased steadily throughout the period, although life insurance policies decreased in number in 2000 and 2002, whereas non-life policies increased without a break.

Insurance companies' premium income was HUF 550 billion in 2003, 85% higher at current prices than four years before, and up from 2.6% to 3% of GDP. The relative proportions of life and non-life premium income – since they increased at the same rate – did not change, and was 40–60%. A decreasing proportion of life insurance premium income, 55% in 2003, was from mixed life, and 36% was from investment-linked insurance policies. In the non-life section, a slightly reduced proportion of premium income, 55% in 2003, was from comprehensive motor vehicle ins. (casco) and compulsory (third-party) vehicle liability insurance, 18% fire and accident insurance, and 16% from other property risk insurance. The annual premium per

policy increased during the four years by 70% in the life insurance sector to HUF 64,700 and by 63% in the non-life sector, to HUF 34,600.

Insurance companies' claim and service payments totalled HUF 244 billion in 2003. This was an 83% growth in four years at current prices. The increase was considerably faster – 3.9-fold – in the life insurance sector, where total claim and service payments increased relatively to somewhat over a third of total payments in 2003. The claims ratio (the ratio of claims and service payments to premium income) in 2003 was 44% overall, 38% for life insurance and 48.5% for non-life. Of the latter, the highest was in compulsory third party vehicle insurance, at 64%, which was nonetheless considerable way down from its exceptionally high figure of 71% in 2001.

Insurance companies' costs increased 51% during the period, approaching HUF 163 billion in 2003. Their cost ratio lessened from year to year, and was 29.5% in 2003, and they made a total profit before tax of HUF 35 billion last year, 3.9 times higher than of four years previously. Insurance companies' total investments amounted to HUF 902 billion in December 2003. Seven-tenths of these were in state securities of maturity longer than one year, and one tenth in state securities of maturity one year or shorter. Another 5% or so were in company shares.

Concentration of the insurance market relaxed slightly, and in terms of annual premium income, the five largest companies held 79% of the market in 2003.

There were thirty-six **insurance associations** at the end of 2003, and their significance is rising, but still modest, and they account for 1.7 of the insurance sector's total policies, 1.9% of premium income, 4.2% of claim and service payments, and 3.1% of investments.

Private and voluntary funds**

The number of pension funds steadily decreased during the four-year period, and this was true for both private and voluntary funds. The number went down from 25 private and 116 voluntary at the end of 2000, to 18 and 83 respectively at the end of 2003. (At the same time, the number of voluntary health and mutual aid funds increased, 40 and 30 such funds operated respectively in 2003.)

* Source of data: Budapest Commodity Exchange.

** Source of data: Hungarian Banking and Capital Markets Supervision.

The number of fund members increased overall, to over 3.8 million at the end of 2003. The increase was continuous in every kind of fund and in every year, except for a slight slippage in private pension fund members in 2002. Compared with the 2000 position, there was a smaller concentration of members – six tenths – in private pension funds and nearly a third were in voluntary pension funds. (The smaller membership in the other two kinds of voluntary fund increased rapidly, raising their combined share of the total to 8% at the end of 2003.)

During the four-year period, fund members raised their contributions 2.2-fold – faster than the increase in their numbers (21%) – to 258 billion forints. By volume, allowing for changes in consumer prices, contributions were 70% above the 1999 level. Private pension funds received a larger proportion of membership contributions (63%) than their number of members, and voluntary pension funds a lower proportion (30%).

The funds' operating costs in 2003 were equivalent to 6% of contributions and 11% of payments. One of the peculiarities of the system was that payments were almost all made by voluntary funds. In 2003, the funds' accumulated assets (membership contributions and investment yield) stood at four times the 1999 level, having risen in GDP terms from 2.2 to 5.4% over the period, at HUF 1 trillion. The proportion of total fund assets held by private pension funds climbed 20 percentage points to 55%, and the pro-

portion held by voluntary pension funds went down by a similar amount, to 43%. Assets per capita amounted to HUF 243,000 in private pension funds and HUF 356,000 in voluntary pension funds at the end of 2003. The majority of fund assets, nearly seven tenths, are held in state securities, and nearly a tenth in shares. The pension funds achieved an annual 49% increase in income on their investment activities in 2001 and a 27% increase in 2002. The extremely severe drop in bond prices in the last few months of 2003, coupled with changes in accounting procedures, caused private pensions funds' investment yields to fall 55%, and voluntary funds' 40%, from their levels in the previous year. In total, the investment yield of pension funds in 2003 was HUF 22.5 billion, hardly more than half what it had been the previous year. In consequence, net income from investment activity as a proportion of the average investment holding was equivalent to 1.8% for private pension funds, and 2.9% for voluntary pension funds.

The decreasing number of funds, couple with their increasing membership and asset accumulation, led to intensified concentration. The six largest private pension funds have 87% of private pension fund members and 83% of assets. In the case of voluntary pension funds, the 15 largest, primarily with banking or insurance backing, have 87% of members and 81% of assets.

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Explanation of symbols

· · = not available