



HUNGARY



2004



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Demography

Population

The rate of natural decrease slowed last year. A few more children were born, and slightly fewer people died, than the year before. The number of marriages fell to an even lower level, but the proportion of births outside marriage increased. Infant mortality fell below 7 per thousand for the first time, and the number of abortions continued downwards.

There were 37,400 more deaths than live births in 2004. Owing to international migration, the actual decrease of the population was somewhat less than this: 20,500. Incorporating the balance of immigration and emigration, the **population of Hungary on 1 January 2005** was 10,096,000.

The 10 countries which joined in 2004 raised the population of the European Union by 74 million. 16% of the EU's population live in these countries, and 2.2% in Hungary. The total population of the 25 member states on 1 January 2004 was 456,815 thousand, having increased by 2,255 thousand during 2003. The population increase in 2003 per thousand inhabitants was 4.9 in the 25 EU countries and 6.1 in the EU-15, higher than the year before.

The demographic expansion of the EU is occurring in the EU-15. The rise is largely due to immigration, an increasingly significant factor in demographic figures since the early 1990s. There was also a positive difference (0.8) between the numbers of live births and deaths per thousand of the EU-15 population.

The population of the ten new member states (NMS-10) decreased by nearly 60

thousand in 2003. Following a trend that started in the mid-1990s, these countries are undergoing a rate of natural decrease that the positive migration balance does not offset in every case. Among all EU countries, Hungary's rate of natural decrease is second only to Latvia's. The migration balance was positive in every member country except the Baltic states and Poland, and in Hungary it was one third of the EU average of 4.5 per thousand inhabitants.

Demographic Trends

The number of marriages decreased by 1600 (3.5%) in 2004, to a level 34% below that of 1990. Most marriages were among 25–29 year-old women and 30–34 year-old men. For men, it was the first time that marriages had shifted to this age group at such a high level. Among 30–39 year old women and over-30 year-old men, the number of marriages increased slightly. Postponement of marriage to later in life is mainly the consequence of extended study in full-time education and the rising number of unmarried partnerships.

There was no significant change in the divorce rate in 2004. The courts dissolved about the same number of marriages – 25 thousand – as the year before. However, the age composition of divorcees is gradually shifting: despite remaining most common among 20–29 year-olds, the **divorce rate** in that age group has been relaxing slightly in recent years, as against a steady increase among married people over 30.

The latter is partly related to the rising average age of newly-weds, but also indicates an increasing tendency for long-standing marriages to end in divorce.

This several decade-long process has resulted in a significant alteration in the distribution of population by **marital status**. Since 1990, the proportion of single people has risen from 20 to 29%, and that of divorcees from 7.4 to 9.7% of the population. Consequently, the number of married people has fallen from 61 to 49% of the population. 2004 was the first year in which less than half of the 15-and-over population was married.

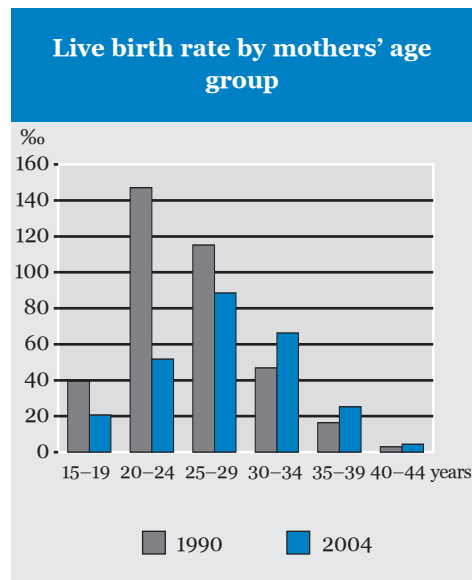
The number of marriages per thousand inhabitants is also low in the EU countries. In Hungary, it was 4.3 in 2004. Hungary has occupied 7th lowest place on this scale in recent years. The countries lower on the list included Slovenia, Belgium and Estonia.

Hungary had one of the highest divorce rates – 2.5 per thousand inhabitants – among EU countries. Divorce is least common in Ireland, Italy, Greece and Spain – between 0.7 and 1.0 per thousand inhabitants according to the latest figures –, but is even higher than Hungary's in the Czech Republic, Lithuania, Estonia and Belgium (3.0–3.1).

Following a temporary rise in 2000, the number of **live births** resumed its annual decline, although at a slower pace. In 2004, the decline stopped, and 95,100 children were born – 450 more than the year before. The number of live births per thousand of population thus increased from 9.3 to 9.4. This was the second time in the last ten years that more children were born than the year before.

The fertility of women under 25 declined further last year, although it went up

among those in their late twenties and their thirties. Many of the extra births were due to the higher propensity to have children among 28–32 year-old women of the 1970s „baby boom” generation. Thus the declining number of births among younger generations was counterbalanced by older women of child-bearing age. Most of the extra births in 2004 were to mothers of higher educational level, bearing their first children, and living in unmarried partnerships.



The spread of cohabiting relationships has been accompanied by a rising rate of **children born outside marriage**, which last year reached the highest level since the recording of population statistics began: 34%. In the European Union, this figure varies widely from country to country. Hungary's is approximately in the middle; the highest rates are found in some northern European countries (Sweden and Denmark) and the lowest in Cyprus and

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Greece. The EU average was 30% in 2003, and 7 percentage points lower in the 10 new EU member states.

At the **fertility rate** prevailing in Hungary in 2004, 128 children would be born to every 100 women during their lives, the same rate as the previous year, and considerably short of the 210 required for long-term maintenance of the population. This fertility rate means that the children being born and growing up in 2004 were some 38% fewer in number than their mothers' generation, a figure unchanged on the year before.

53,000 abortions carried out in 2004 were 1.5%, or about 800, fewer than in the previous year. The number of artificial terminations has, with a few setbacks, displayed a definite downward trend over the past decade and a half. In 2004, there were 56 abortions per 100 live births, lower than the previous year's figure (partly because of the slight rise in births) and 16 less than in 1990. Despite this improvement, Hungary's figure remains high by EU standards, although well below those of Latvia (70) and Estonia (100).

Fertility				
Description	1980	1990	2000	2004
Number of live births per thousand 15-49 year old women	57.6	49.4	38.1	38.4
Total fertility rate	1.92	1.84	1.33	1.28

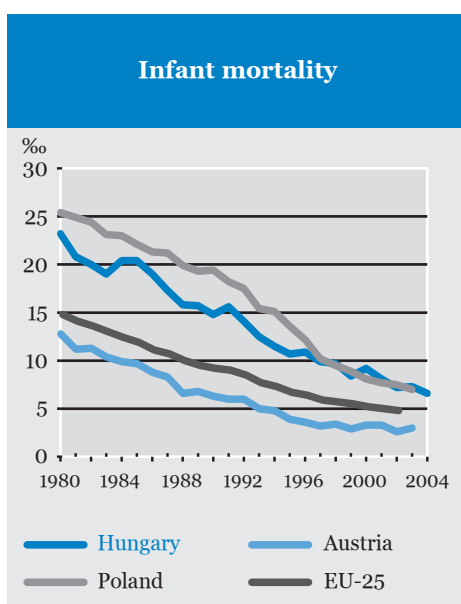
Although fertility rates in different EU countries have been gradually converging in recent decades, significant differences remain. In 2003, the average fertility rate per 100 women in the EU was 148, up on previous years, but still short of the level ensuring simple reproduction of the population. The average figure for the ten new member states was considerably lower and down on the previous period, fertility in all ten countries being under the EU-25 average. The situation is the reverse of that prevailing up to two decades ago, when fertility rates in the EU-15 were lower than in the countries that joined last year.

The number of **abortions** in Hungary decreased further in 2004. The

After some fluctuations in recent years, the number of **deaths** decreased again in 2004 from the previous year, continuing the former trend. Compared with the 150,000 deaths in 1993, the highest figure since the Second World War, the 132,500 deaths in 2004 was one of the lowest figures for two decades. This was a decrease of 3300 or 2.4% over the previous year, helped by 2004 being an effectively epidemic-free year.

There was an improvement of mortality among both sexes, but more strongly among men, thus further reducing the gender difference. Male mortality decreased chiefly in the 40-49 and over-55 age groups, while for women, the improvement was mainly among older age-groups.

The number of live births per thousand inhabitants was higher than the national average of 9.4 in Northern Great Plain (10.2) and Northern Hungary (9.6), and lower than the average in Southern Great Plain (8.8) and Western Transdanubia (8.5). The death rate was highest in Northern Hungary (14.1), Southern Great Plain (13.7) and Southern Transdanubia (13.6).



Infant mortality decreased significantly, by 8.7%. The long course of improvement faltered in 2003, but resumed last year. In 2004, 6 of every thousand baby girls and 7 of every thousand baby boys died before their first birthday. There is a wide regional scatter of infant mortality around the average of 6.6 per thousand live births. Hungary still has a high rate of infant mortality by European Union standards, along with the Baltic states, Poland and Slovakia, where the figures range between 6.7 and 9.4 per thou-

sand. Infant mortality in Sweden, Finland and Spain is around 3 per thousand, approaching the estimated biological minimum of 2–3.

Inland and International Migration

Following a slow but steady acceleration in the last few years, **inland migration** slowed by 3.7% in 2004. The number of permanent moves fell by 10%, but temporary moves increased by some 4%.

The main destinations of inland migration remained Pest county, and Western and Central Transdanubia, and the main sources Budapest, Northern Hungary and Northern Great Plain. However, the migration loss of Budapest and Northern Great Plain was lower than the previous year. The migration balance per thousand Budapest inhabitants was -4.2 in 2004, against -6 the previous year. The most attractive Transdanubian counties were Győr-Moson-Sopron and Komárom-Esztergom. The counties with the highest inland migration losses were, like the previous year, Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg, but their migration deficits lessened somewhat.

On 1 January 2005, there were 140,900 **foreign** nationals in Hungary holding residence permits. This was some 8.3% or nearly 11,000 up on the previous January. The overwhelming majority came from Europe – principally Romania, Ukraine, the former Yugoslavian states and Germany. The majority of immigrants were aged between 25 and 49—57% of men and 53% of women.

In recent years, the only region whose population has actually increased is Central Hungary. Northern Hungary has experi-

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enced the greatest loss through both natural decrease and inland migration. In 2004, the international migration balance was, similarly to the year before, positive in

every region. The Central Hungary region still attracts the most immigrants, but increasing numbers head for Southern Great Plain and Central Transdanubia.

Principal demographic figures per thousand inhabitants by region, 2004

Region	Natural decrease (-)	Inland	International	Actual increase or decrease (-)
		migration difference		
Central Hungary	-3.3	3.1	3.3	3.0
Central Transdanubia	-3.2	0.6	1.6	-1.0
Western Transdanubia	-4.2	1.6	0.3	-2.3
Southern Transdanubia	-4.6	-1.9	0.8	-5.7
Northern Hungary	-4.5	-3.1	0.6	-7.0
Northern Great Plain	-2.2	-2.3	0.8	-3.7
Southern Great Plain	-5.0	-1.1	2.1	-4.0
National total	-3.7	-	1.7	-2.0

Education and Science

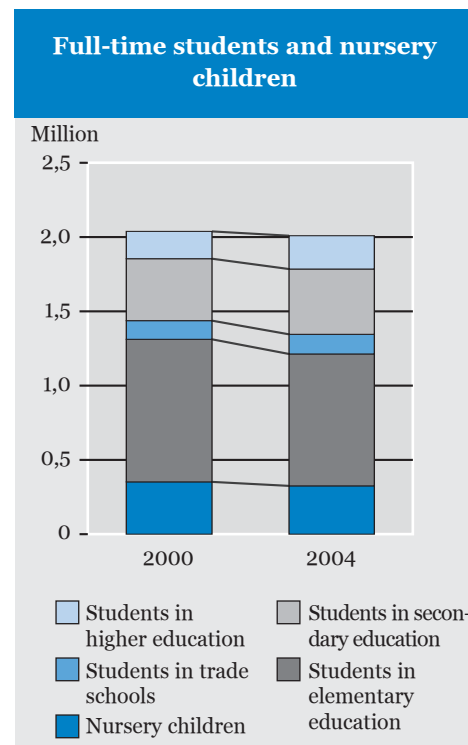
Educational Level and Provision, Training

Since the turn of the millennium, the ranking of countries by **level of education** has changed slightly in the European Union, and the differences between them have narrowed. The number of young people – between 20 and 24 – with at least secondary (trade or school-leaving examinations) averaged 76–77% in the 25 countries of the EU during the period. In 2004, 83% of young people in Hungary had at least secondary qualifications.

In Hungary, 71% of a wider section of the population – people between 25 and 64 years old – had at least secondary qualifications in 2002. In the EU, the lowest figure was found in Portugal (21%), and the highest – over 85% – in the Czech Republic, Estonia and Slovakia. Hungary's place in the middle of the field has not changed over the last three years. By the rate of higher educational qualifications, Hungary is on a par with Austria and ahead of Poland, the Czech Republic, Slovakia, Italy and Portugal.

Employment prospects increase with the level of education. In every EU member state, the unemployment rate among those with elementary education is higher than among the better-educated. In Hungary in 2004, the unemployment rate in the 25–59 age range was 11% for people with basic education and 1.9% among those with higher educational qualifications, figures which have not changed significantly in recent years. Higher educational qualifications afford a particularly strong labour market advantage in Hungary. In the 25 EU states, unemployment among people with

low qualifications was on average 6.7 percentage points higher than among degree holders (2003 figures). The equivalent advantage in Hungary varied between 9.0 and 9.8 percentage points over the years 2000–2004. The widest gap was in Slovakia and the narrowest in Sweden. The gap was narrower in Hungary than in Poland, the Czech Republic and Latvia.



In school year 2004/2005, 2,010 thousand children and young people attended nursery and full-time school education in Hungary, 87% of the 3–22 year-old population. A was a 1.5 percentage point increase

on the year before. Adult education was attended by a further 293,000 people, essentially the same number as the previous year.

The 326,000 children attending **nurseries** in 2004/2005, in line with the demographic trends of recent years, were slightly – about 1500 – fewer than in the previous school year. The proportion of children in nursery education in the 3–5 year age group has been rising for several years, and now stands at 87%, nearly 4.6 percentage points higher than in 1990/1991. Nursery attendance is particularly high by international standards among 3 and 4 year-olds.

Owing to falling numbers in the first year, there was a considerable decline in the number of students in **primary schools** (the first 8 years of school education): 888 thousand was in full-time education, more than 20 thousand fewer than the previous school year. Similarly to the previous year, 40% of students attended afternoon school (after classes finish), and over 61% took school meals. In 2004, about a thousand more students than the year before (118,000) graduated from primary school and nearly all of them continued their studies at secondary school.

In the current school year, there was effectively the same number of students, 571,000, in full-time **secondary education** as last year. 97% of the 14–17 age group attend public schools, following the rising trend established in recent years. The proportion of 18 year-olds in education corresponds to the average in the EU-25 (76%).

The distribution of enrolments by type of school did not change. 23% are studying in vocational schools not leading to a school leaving certificate, 43% in vocational secondary schools and 34% in grammar schools. The steady shift during the 1990s

towards education leading to school leaving certificates stopped last years. In school year 2004/2005, 16% of grammar school students attend 8-year and 18% 6-year schools. The remaining 66% are in the traditional 4-year schools starting after the end of 8-year primary education, a figure 1 percentage point higher than last school year. As in the previous year, 79% of grammar school students go to public and local government schools, 16% church and denominational schools, and the remaining 5% schools maintained by foundations or other organizations.

Owing to the recent rise in the number of secondary school students, the over 76 thousand students who graduated from full time education with school leaving certificates in 2004 were nearly 5 thousand more numerous than the year before. 48% of them, as before, graduated from grammar schools. 28 thousand students passed school leaving examinations in vocational schools and 27 thousand did so in vocational secondary schools, similar numbers to the year before.

There are currently nearly 181 thousand school teachers employed in public education, 1.4% fewer than last school year. The decrease was above average among primary teachers and trade instructors and below average among junior and secondary teachers. The student-teacher ratio has been falling at all levels of education since 1990, especially in vocational and primary schools. The trend slowed at the turn of the millennium, and there has been little change in the last year or two.

According to the 2002 Eurobarometer research, there were major differences in **language skills** among EU countries. In Malta, Denmark, Sweden and the Netherlands, at least three-quarters of non-native

English speakers have a knowledge of English, compared to 14% in Hungary. Only 2% of the Hungarian population speak French, and this figure (knowledge of French as a foreign language) ranges between 1 and 18% except in Luxembourg and Belgium. German is more commonly known in Hungary, spoken by 13% of the population, compared with between 1 and 67% in other EU countries (except Luxembourg).

As **tertiary education** institutions have expanded, the absolute numbers of students has grown very fast. In academic year 2004/2005, 226 thousand young people matriculated in full-time tertiary education at various levels, 4.3% more than in the previous year. This number comprises 7500 in accredited higher-education vocational training, 212 thousand in first-degree university and college courses, and another 5800 working towards vocational post-graduate, PhD and DLA qualifications.

In academic year 1990/1991, 8.5% of the 18–22 year-old population was studying in tertiary education, compared with over 24% in the present academic year, a slight rise on last year. Economics and law courses remain the most commonly chosen in first place. At colleges, the popularity of tourism and hotel courses has now surpassed business which was in first place until this year. In 2004, 58% of applicants were admitted to tertiary education, a 3 percentage point fall on the previous year. Foreign students currently number 9302, 4.4% of all students and make up approximately the same proportion as in 1990–1991. Female students accounted for 54% of the total, a figure which has been steady since the turn of the millennium.

In 2002/2003, 55% of the 5–29 age group (the basis of international comparison) attended education, approaching the

average of the 10 countries which joined the EU in 2004 (56%), but still short of the median figure for the EU-25 (60%). Hungary's lag behind the average has narrowed in recent years. The number of tertiary education students in the new member states has been increasing at the average annual rate of 5–12% since 2000, compared with 2–3% in the EU-15 countries.

In Hungary, a total of 196 thousand students are pursuing evening, correspondence and distance courses in tertiary education – 1.7% more than last year, and three times as many as 10 years ago. In 2004, 22 thousand people received higher adult education certificates, one thousand more than in 2003.

The state finances the courses for 80% of full-time higher education students (2 percentage points less than last year). In the constantly-expanding area of distance learning, students are all self-financing.

Government expenditure on education in 2003, including accumulation expenditure, was over HUF 1,070 billion, 15% more than the year before. 73% of this (HUF 783 billion) was spent on school and nursery education and 20% (HUF 216 billion) on higher education. The proportion spent on higher education has risen slightly over the last ten years.

The 25 member states of the European Union spent an average of 5.2% of their GDP on education in 2002, 0.1 percentage point higher than the year before. The rate of rise was approximately similar in the new and old member states. Hungary spent somewhat more than the EU average (5.5%) of its GDP on education, and 0.4 percentage points more than the previous year. In the EU as a whole, Denmark spent the highest (8.5%) and Greece and Luxembourg the lowest (4%) proportions of GDP on education.

Research and Development

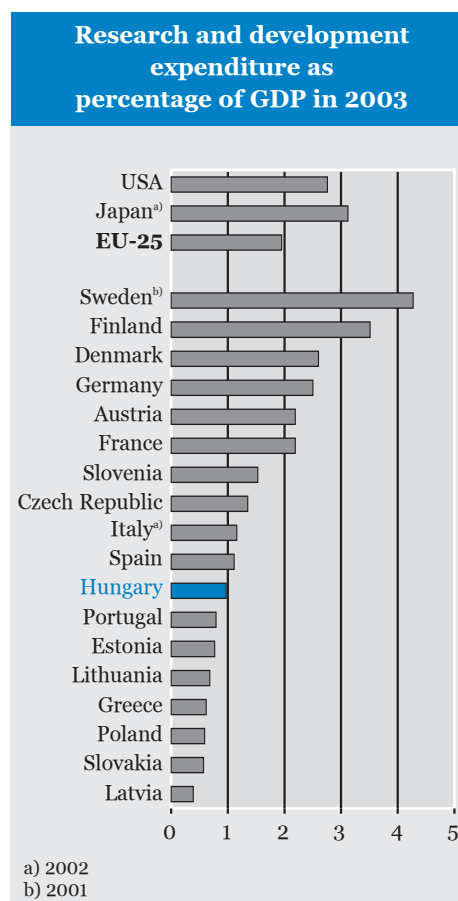
In 2003, the rapid growth of research and development seen in past years slowed considerably. **Expenditure** totalled HUF 176 billion, a 2.5% increase at current prices but a 2% decrease in real terms over 2002. As a proportion of GDP, R&D expenditure fell from 1.01 to 0.95%. The EU averages, although considerably higher than Hungary's, fell well short of the USA and Japan in terms of both expenditure and numbers of researchers.

There were 2470 **research and development units** in Hungary in 2003, 1.8% more than in the previous year. Research activity was pursued by 48,700 people, practically the same number as the year before. Converted into full-time terms, the **R&D workforce** contracted by 392, or nearly 2%, to 23,300. There were 1.4% more researchers and developers, but 6% fewer assistant staff. In the leading EU countries in this respect – Finland, Sweden and Denmark – 2–3% of people in work are employed in the research and development sector, compared with 1.3% in Hungary, somewhat short of the EU average of 1.5%.

Tertiary education in Hungary spent 9% more on research, **businesses** 6% more, and **government-funded research sites** 2% less. Businesses accounted for 31% of funding for research and development, a figure which hardly changed in 2003. In the EU, the business sector finances 55% of research and development activity. In 2001, the overwhelmingly highest proportions of business funding for advanced R&D were in Finland and Sweden – both over 70% – and the lowest in Cyprus (15%) and Latvia (18%).

There were 21,400 research and experimental development projects being pursued in

2003, nearly 4% fewer than in 2002. The number of books and articles published also fell slightly. There were nearly 20% fewer **patent applications** overall, and nearly 30% in the pharmaceutical industry. The decline is mainly attributable to accession to international organizations. On 1 January 2003, Hungary joined the European Patent Convention, as a consequence of which foreign patent applicants can apply for the grant of a Hungarian patent by indicating Hungary in their European application.



Employment and Economic Activity

The labour market underwent only minor changes in 2004, as in the few years before. The number of employed and unemployed, following improvements in the previous period, hardly changed in 2004.

The labour force survey found 4,153 thousand people to be **economically active** in 2004, 0.3% fewer than in 2003. These comprised

- 3,900 thousand employed,
- 253 thousand unemployed.

53.8% of the 15–74 year-old population was economically active (employed or unemployed), the same proportion as the previous year, but a slight rise on the years up to 2003. The rate of economic activity in Hungary is low by international comparison. The economically inactive population (3,568 thousand) shrank slightly (by 0.3%, less than the measurement margin of error) in 2004.

Changes in the age composition of **employed** followed the trends of recent years. There were 14.0% fewer young people (between 15 and 24) employed, and their employment rate fell by 3.1 percentage points to 23.6%. Young people are entering the labour market later partly because of the longer time spent in education and partly owing to the increasing scarcity of jobs for school leavers. By contrast, more people in older age-groups are working, in both absolute and relative terms. The gradual rise in the retirement age (in 2004, men qualified as being of working age up to 61, and women up to 59) and the change in the retirement rules

caused the employment rates among people aged 55–64 to rise to 31.1% from 29.0% in 2003. The number of people employed in the 55–64 age-group has increased by 76 thousand (26%) over the last two years.

Last year, over half (50.5%) of the 15–74 year-old population were in work, the same as in 2003. In the 15–64 age group used for international comparison, 56.8% were in work, far short of the average for the 25 member states of the EU (62.9% in 2003). The employment rate is higher in many EU countries, and as high as 70–75% in some,¹ which include Denmark, the Netherlands, the United Kingdom and Sweden. The level of employment in Hungary is similar to that in Greece and Slovakia, and higher than in Poland, Malta and Italy. The lag behind to the EU average is higher for men than women (although the male employment level is still higher than the female).

The distribution of employment by sex has not changed substantially in recent years: men account for 54% and women for 46%.

In 2004, the number and proportion of **people employed in agriculture** continued the downward course of recent years. The sector now accounts for only one in every 20 employed. The number of employed in manufacturing has also decreased (particularly owing to the shrinking workforce in the increasingly uncompetitive textile, textile goods, leather goods and footwear manufacturing sector, and the food, beverage and tobacco manufacturing subsectors). By contrast, the

¹ This partly reflects the extent of part-time employment.

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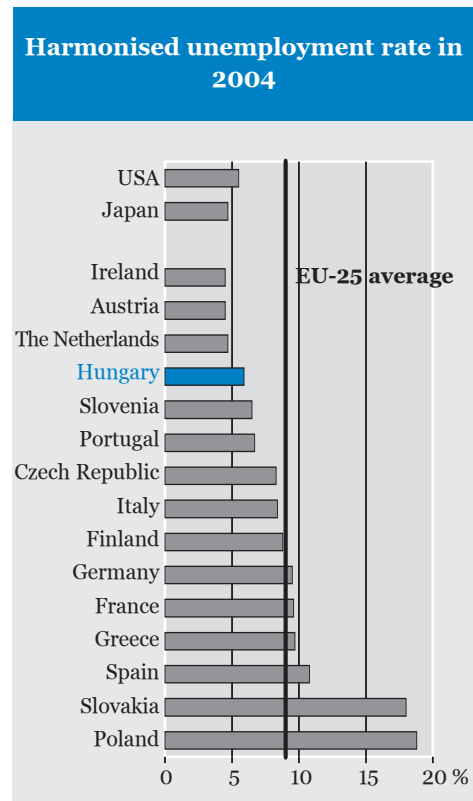
number of employed in the construction industry rose to a similar extent as in previous years. Nearly a third of all employed people are in **industry and construction**, and 62% in services. The workforce in some **service sectors** increased, particularly in hotels and restaurants and financial intermediation. In the transport, storage and communication, other community, social and personal services and trade and repair sectors, however, there were fewer people employed than in 2003.

In 2004, 86% of employed people were employees, similarly to the majority of European Union member countries. The relative numbers of self-employed and people working in sole enterprises (partnerships) and companies but not as employees have risen slightly over the last few years; they accounted for 13.5% of employed people in 2004. The numbers of cooperative members and assisting family members have dwindled year by year, down to the negligible rates of 0.2 and 0.5% respectively in 2004.

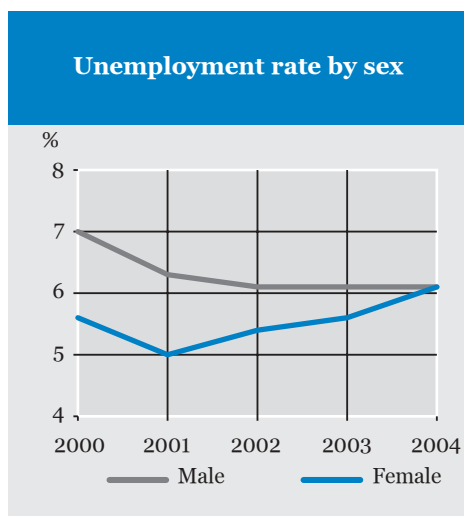
Last year, 2,790 thousand people were **employees** of companies with five or more employees and central government-funded organizations, somewhat more than in the previous year. In contrast to previous years, the increment was due to increasing number of full-time employees. **Part-time employment**, which was rising in Hungary up till last year, is most common in the textile industry, in trade and repair, in health and social work, and in real estate, renting and business activities. The European Union part-time employment rate was four times higher than the Hungarian in 2003. In the United Kingdom, Germany, Sweden, Denmark and Belgium, one in five employed is in part-time employment, and in the Netherlands,

nearly one in two. The Hungarian level is similar to the Greek and the Czech one.

The long downward trend of **unemployment** stopped in 2002, giving way to small rises in 2003 and 2004 (less than the sampling margin of error). There was an average of 253 thousand people unemployed last year, 8 thousand more than in 2003. The annual average unemployment rate rose by 0.2 percentage points to 6.1%. In the 25 European Union states, unemployment averaged 9.0% in 2004, higher than the 5.9% figure for Hungary as harmonized within Eurostat. In most new member states (the exception being Cyprus), unemployment is higher than in Hungary.



Male and female unemployment rates have been converging, and were equal in 2004. Male unemployment did not change from the year before, while female unemployment rose from 5.6 to 6.1%. (Among women, the biggest rises were in the 20–24 and 45–49 age-groups.)

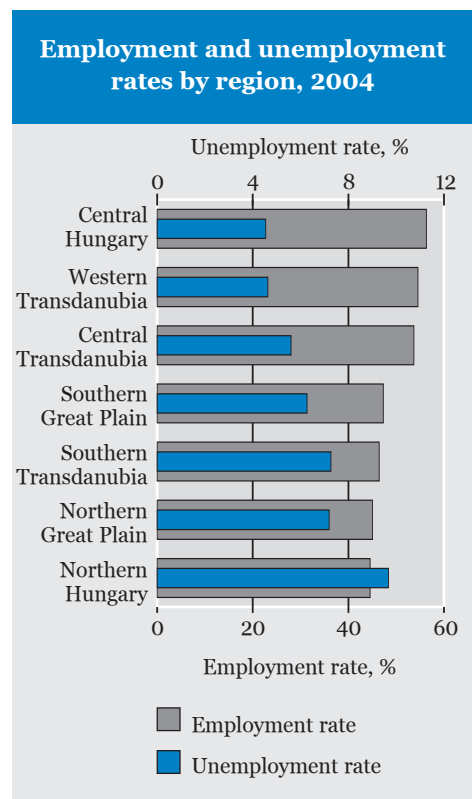


Unemployment in the 15–24 age-group increased from 13.4 to 15.5% in one year, but was still somewhat lower than the average of the 25 European Union countries (18.6% in 2004). The unemployment rate among young graduates increased from 5.5 to 6.7%.

The numbers of those in the worst position, the long term unemployed, increased substantially in 2004. Last year there were 114 thousand people registered as looking for work for a year or longer. The long-term unemployed accounted for 45.4% of the total, up from 42.5% the previous year.

Unemployment touched 6% of households in 2004, or one in 17 families, and one in seven of large families – those with 5 or more members.

Employment figures displayed substantial **regional variations**. Central Hungary's employment rate, 56%, was the highest in the country last year, and was slightly up on 2003. Northern Hungary had the lowest, 45%. The gap between the regions of highest and lowest employment rates widened over the year. As in 2003, unemployment was highest in Northern Hungary, at 9.7%, and lowest in Central Hungary, at 4.5%. The highest annual unemployment increase was experienced in Central Transdanubia, where it went up from 4.6 to 5.6%. The Southern Great Plain region saw improving levels of both employment and unemployment during the year.



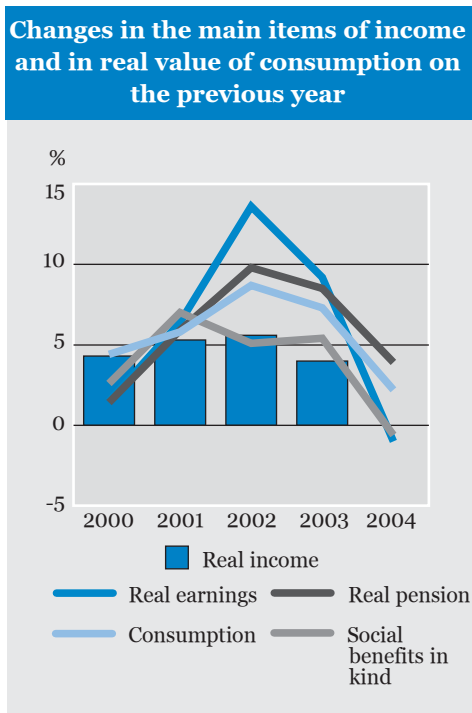
Income and Consumption

The 2003 slowdown in income outflow, which had hitherto been faster than GDP growth, continued in 2004. The key factor in this was the lowering of real wage levels. The rise in the purchasing power of pensions and pension-like benefits approached the GDP growth rate. The real value of social benefits in kind fell. Earnings, which fundamentally determine living standards, grew by 23% in real terms between 2001 and 2004. Pensions grew by 24% and social benefits in kind by 19% in real terms over the same period, and household consumption was 23% above the 2001 level.

Earnings

Government measures in past years (substantial minimum salary rises in 2001 and 2002, 50–70% pay rises for professional soldiers, earnings rises for civil servants in 2001 and 2003, and the 50% basic salary rise for public employees in 2002) had a major impact on earnings. No similar earnings-raising measures were taken in 2004, and the end-year standardization postponing the „13th month” salary payment to January 2005 worked in the opposite direction.

The **average gross nominal earnings** of people in full-time employment stood at HUF 145,700 per month in 2004. Manual workers earned 96,100, and white-collar workers HUF 203,600. Overall, nominal earnings grew by 6.1% over 2003: 6.7% for manual workers and 5.7% for white-collar workers. The recent trend for earnings to rise faster in the public than in the private sector was broken last year. Private sector workers received average pay rises of 9.3% in 2004, against 0.7% for public sector workers. The principal factor behind the modest public sector rise was the standardization of the 13th (or „0th”) month salary payment. Having been paid in December up to 2003, this extra monthly payment is now only paid the following January. As a result, average gross earnings in the public sector were 20% lower in December 2004 than the previous December. In the first half of last year, there was a uniform 5–7% increase in nominal public sector earnings, but this slowed down in the second half, and taken together with the above measure, earnings in the



fourth quarter were actually lower than those in the same period the previous year.

Earning differences between the **sectors**, having narrowed in previous years, widened again last year. As before, the most outstanding earnings in 2004 were those of financial sector workers, nearly 2.25 times the national average (against 1.75 times in 2003). This was followed by the chemical industry and the electricity sectors. The lowest average earnings in manufacturing industry last year were in textiles, textile products, leather products and footwear and in manufacturing not elsewhere classified, where workers earned only just over half of the national average. In hotels and restaurants, agriculture and construction, workers earned 60–70% of the national average. Last year, the average gross earnings of textile industry workers were 23% of those working in financial intermediation, down from 27% the year before.

For people in employment, income from work, in addition to monthly earnings, also includes other benefits in cash and kind.² In 2004, the **average monthly labour income** in the national economy was HUF 153,000, 7300 more than gross earnings. The rate of „other labour income” was thus 4.8%, nearly a percentage point higher than in 2003. Other labour income accounts for the highest proportion in public administration and in the electricity and chemical industry sectors. At the bank central exchange rate, monthly labour income was equivalent to € 608, and at 2003 purchasing power parity, to 1040 purchasing power standards (PPS).³

Gross and net nominal earnings rose at similar rates last year: 6.1 and 5.7% respectively. **Net average monthly earnings** stood at HUF 93,800 in 2004, HUF 70,200 for manual and HUF 121,300 for white-collar workers. The net earnings difference between these two categories remained stable, as in previous years.

Of Hungary's 7 regions, Central Hungary, with HUF 107,900, had the highest level of average, net, monthly earnings last year. Just as in 2003, this figure was 15% higher than the national average. Workers in Northern Great Plain earned the least (HUF 80,400) and those in Southern Great Plain only HUF 670 more. The equalising trend of recent years did not continue, and in the low-earning regions, pay increased less than in the higher-income regions. The annual rise was 4.7% in Northern Great Plain and 5.3% in Southern Great Plain, lower than the national average. The exception was the Southern Transdanubia region, where net earnings (HUF 83,000) were considerably below the national average but pay rose by 6.5%, the highest rate in any region. The advantage of the highest-earning region over the lowest stayed roughly unchanged over the year, at 25%.

Since net average earnings rose on average by 5.7% last year and retail prices by 6.8%, the **real value of earnings** decreased by 1%. However, this was preceded by very large rises in real wages – manifold surpassing economic growth – 13.6% in 2002 and 9.2% in 2003, so that the 2004 level was still 8.0% higher than two years previously, and 23% higher than in 2001. A major factor in last year's slow-

² Meals and accommodation allowance, reimbursement of travel to work expenses, long service bonus, bonus in kind, company car-related expenses, etc.

³ The purchasing power standard is a common reference currency unit for statistical purposes, and is designed to eliminate price level differences and thus allow real volume comparisons to be made among different countries. Its global purchasing power is equivalent to that of euro.

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down was the government's standardisation of 13th month salary payment for civil servants. From 2003, real earnings thus fell by 5% in the public sector, while those in the private sector rose by 1.1%. (In 2003, real earnings increased by 7.3% in the private and 12.7% in the public sector.)

Social Income

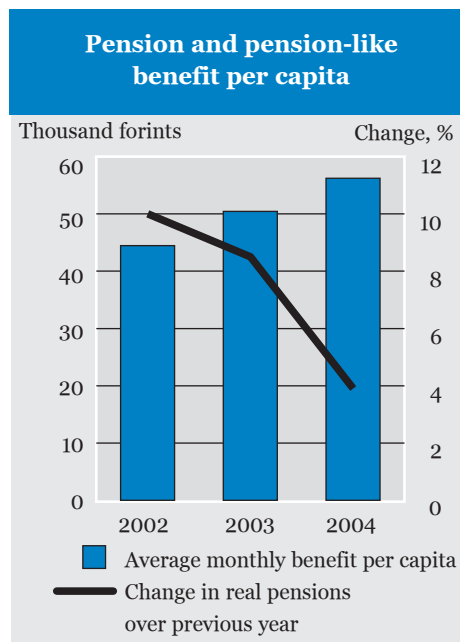
The 15 EU states in 2002 spent an average of 28% of GDP on social solidarity, i.e. **social protection expenditure**,⁴ ranging between 30% in Sweden, France, Denmark and Germany and 16% in Ireland. The figure in Hungary at that time was around 20%.

In the 15 old EU countries, and in Hungary, two-fifths of expenditure went on old-age benefits and 28% on sickness and health care. The 8% spent on family support and child benefits, and the 8% on disability benefits in the 15 old EU countries were lower than the corresponding figures in Hungary: 13% and 10% respectively. The proportion of social protection expenditure spent on unemployment was smaller in Hungary (2.8%) than in the EU (6.2%), and the proportions spent on housing and accommodation (3.5%) and for other purposes (3.6%) were similar. The proportion spent on widows and orphans was strikingly low in Hungary: 1.5%, against an EU-15 average of 4.8%. (This item is over 10% in quite a few countries, such as Belgium, Italy and Greece; etc.)

Some 30% of the Hungarian population depend for their regular living on **pensions** or pension-like benefits. There was a further, if small, decrease in the number of pension recipients in 2004, to 3,041 thousand despite an increase of new pension

awards, indicating an accelerating rate of demographic exchange. Over 180 thousand new pensions were awarded during the year, resulting in 38% more old-age pensions. Owing to the social security rules, the pensions system still serves to address many health and social problems. 54% of pensions were retirement pensions, and 33% – over one million – were awarded on health grounds. The rest comprise such as widows' pensions and orphans' benefits. In 2004, HUF 2.1 trillion was spent on pensions and pension-like benefits, 10.2% of GDP. This is a lower percentage than the EU-15 average, which was 11.0% in 2002.

The average monthly payment per head in Hungary was HUF 56,000 in 2004, an increase of 11.5% at current prices and 3.9% in real terms as calculated using the consumer price index for pensioners.



⁴ Calculated by the method used for the integrated European System of Social Protection Statistics (ESSPROS).

Over 2% of GDP was spent on **family protection** and **child care benefits** in 2004. Cash benefits to alleviate the burden of caring for children and to reduce inequalities are considered to grow in real terms (per recipient, disregarding income tax benefits and family allowance). Family allowance, the most widespread form of social benefit, was received by 1.3 million families for 2.1 million children. The number of recipient families and children, following a rise in 2003, fell slightly. Child care fee (gyed) was claimed by 84 thousand families, and child care allowance (gyes) by 163 thousand. There has been a steady rise in the number of families receiving the earnings-related – and more valuable – child care fee, and there was a fall in the number of child care allowance claimants despite cover being extended to twins for the first time in 2004. The latter accounted for some 4% of payments.

Monthly average child care cash benefits

Year	HUF	Real value, 2002=100.0
Family allowance, per family		
2003	10 415	99.1
2004	11 050	98.5
Child care allowance, per capita		
2003	22 145	107.1
2004	24 428	110.6
Child care fee, per capita		
2003	48 742	103.7
2004	54 322	108.2

* Source of data: National Bank of Hungary.

⁵ Greece, Ireland and Luxembourg were not obliged to publish data until 2005. Source of data: Households' financial assets and liabilities in Europe, Eurostat, 2004.

Household Financial Assets*

Gross household financial assets grew by 27.5% at current prices over two years to 15.8 trillion forints at the end of 2004. The annual rate of growth was 12% in 2003 and 14% in 2004. Accumulated savings are increasing in GDP terms: they were equivalent to four fifths of GDP in 2004, up from two-thirds in 2002.

In nearly all of the twelve countries of the old European Union for which figures are available,⁵ the rate of saving is gradually declining, but the accumulated total is well in excess of Hungary's. Total overall savings of € 17.5 trillion were equal to twice these countries combined GDP at the end of 2002. The highest relative figure was in Belgium (2.6 times GDP), with the United Kingdom and the Netherlands close behind with factors of 2.5 each, and the lowest was in Finland, but even there, savings were higher than GDP.

Changes in the **forms of saving** within household gross financial assets have not all been in the same direction over recent years, except for fund assets and insurance premium reserves, which have grown steadily. Their combined proportion at the end of 2004 was one seventh of all savings, or 2.4 trillion forints. The highest proportion of savings, although down on the previous year, remained cash and bank deposits, totalling 6.5 trillion forints in 2004, i. e. two fifths of savings. As the proportion of forint deposits rose, cash and foreign exchange savings have diminished. The rise in forint deposits took place as nominal interest rates on term deposits lessened slightly, and those on at-sight and

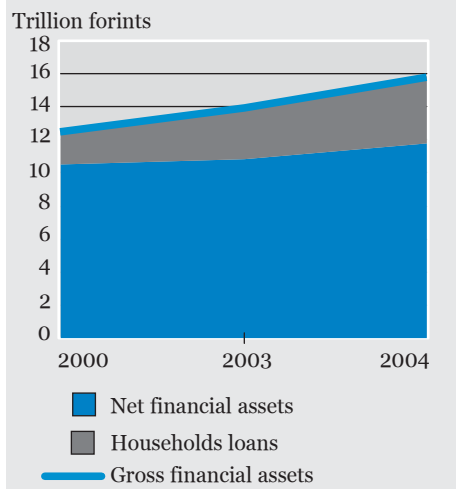
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current account deposits – in the second half of 2004 – rose slightly. In December 2004, interest rates on at-sight and current account deposits were of 3%, 8.7% on term deposits maturing within one year, and 8% on term deposits maturing after one but not later than two years. About a third of household savings (5.4 trillion forints in 2004) were in shares, of which four-fifths were non-stock exchange shares and stakes. The rest were investment bonds and stock exchange shares, the latter constituting only just over 1% of all savings. Non-stock exchange securities constituted a constant 8% of savings, or 1.3 trillion forints. Some nine-tenths of this was in treasury certificates and state bonds at the end of 2004.

In recent years, **household liabilities** grew increasingly faster than in the previous period, and well ahead of assets. Over the last two years, it increased by a factor of 2.1 in current prices to HUF 4 trillion by the end of 2004. Last year's increase, although slower, was still over HUF 0.9 trillion. The increase was accompanied by a major redistribution among types of credit. The fastest rise was in real estate loans provided by monetary institutions, and mostly state-supported and low-interest credit. These amounted to HUF 1.9 trillion at the end of 2004, and made up nearly half of all loans. Vehicle and goods loans provided by non-monetary institutions (mostly financial enterprises) grew slightly more slowly, and accounted to a quarter of all credit, at HUF 1 trillion. Consumer and other credit provided by monetary institutions, as a proportion of the total, slipped back 9 percentage points over two years, although it increased 1.6-fold in absolute terms to nearly HUF 1.1 trillion. A major impact on the increase in household liabilities has

been the widening availability of credit, especially foreign exchange-based credit and card products. The spectacular rise of foreign exchange-based credit – 12-fold for housing loans and 6.1-fold for consumer loans – has caused the public to become an overall net foreign exchange debtor in current-transaction terms. One reason for this is that banks applied central bank base rate rises with a very small lag, but the downwardly-inflexible loan rates have hardly followed the interest reduction process that started in March 2004. The interest rate of forint consumer loans has lessened slightly, but the cost of borrowing has hardly changed for several years, and was 30% in both December 2003 and December 2004.

Household financial assets (at the end of year, at current prices)



The European Union countries mentioned above have also been experiencing growth in household liabilities. In 2002, the amount stood at 65% of GDP on average, spread between 116% in Denmark and

32% in Italy. Hungary's figure in that year was 11%, but rose to nearly 20% in 2004.

As the rate of rise in Hungarian household liabilities has outstripped gross financial assets, **net financial assets** grew by the modest rate of 3% at current prices in 2003 and 9% last year, to HUF 11.8 trillion at the end of 2004. At **purchasing power parity**, household **net savings per capita** were widely spread in the EU at the end of 2002, between 54,800 PPS in Belgium at the top end and 9,700 PPS in Denmark at the bottom. Underlying the differences are variations in propensities to save and lending practices. In Hungary at the end of 2002, at purchasing power parity, net savings per capita amounted to 8,100 PPS.

These developments have caused a reduction in the **ratio of savings to loans**, from 6.6 at the end of 2002 to under 4 by the end of 2004. In the European Union at the end of 2002, this ratio was 3 times on average, spread between wide limits: 1.3 in Denmark and 6.3 in Italy.

Consumption

The volume of **household current consumption expenditure** grew by some 2% in 2004. The structure of expenditure⁶ changed, with a slight decrease in the amount spent on food and an increase on housing, other expenditures staying practically steady. After housing, the highest expenditure categories are transport and communication. The EU-15 and the new member states show considerable dif-

ferences in the structure of this expenditure. In the NMSs, the percentage spent on food is nearly twice the average in the old member countries, where housing is the largest item and freely disposable income accounts for a much higher percentage.

On the scale of daily nutrition, Hungary – although at a level above that regarded as physiologically essential – is in the lowest third of EU countries. Hungary's protein consumption is low and its fat consumption is high compared with the other countries. In terms of meat consumption, Spain, Ireland and Denmark rank highest, and the new member countries (except Slovenia and the Czech Republic) lowest. Vegetable consumption is particularly high in Greece, the Netherlands and Poland, and medium in Hungary.

The structure of food consumption also varies among the regions in Hungary. The lowest consumption of cheese, vegetables and fruit is in the Northern Hungary region, and outstandingly high in the two Great Plain regions. There is lower than average consumption of meat in Central Transdanubia, and of milk in Southern Transdanubia.

The level of household amenities further improved, with complete saturation in many traditional consumer durables – refrigerator, television, washing machine, etc. – and a shift to modernisation and quality upgrade. Although the popularity of fixed line telephones has decreased, 70% of households still have one, and the percentages of households with computers, Internet connections and mobile telephones are increasing.

⁶ Consumption expenditure not including consumer durables.

Living Conditions

Housing

At the end of 2004, there were 4,173 thousand dwellings in Hungary. At the last census (1 February 2001), 9% of dwellings were unoccupied (as against 3–5% at the previous surveys). The average floor area in 2003 was 78 m², equivalent to 30 m² and a little over one room per inhabitant. On the EU ranking of housing provision, Hungary lies in mid-range, above the other new entrant countries and a few of the older member countries.

The proportion of high-quality dwellings, owing to the construction of new dwellings of higher standards and the modernisation and refurbishment of older ones, is steadily rising year by year. In 2003, 91% of dwellings had piped water and 90% had bathrooms. 91% had drainage, but only 59% were connected to a public sewer.

Hungary's housing stock differs from that of most EU countries not on the basis of quantity and quality indicators, but the structure of ownership. Hungary has the highest

owner-occupation rate (92%) and the lowest tenancy rate (8%) of any member country.

There was an upturn in **dwelling construction** at the turn of the millennium, indicated by the over 10% annual rise in the number of dwellings completed every year since 2000. 44 thousand new dwellings were built in 2004, unmatched since the country's change of system in 1990. A rate of 40 thousand new dwellings each year with an average lifetime of 100 years ensures continuous replacement of the housing stock of 4 million units.

The one-man (natural person) background of dwelling construction changed as entrepreneurial housing appeared. Between 1999 and 2004 the housing of natural persons increased to 1,5-fold, that of enterprises to more than 7-fold. One corollary of this is a fifty per cent rise in the number of new dwellings built for sale. There has also been a changeover in the proportions of contractors. Construction industry organisations now account for two thirds of new dwellings, and private builders only one third.

Dwelling construction						
(%)						
Year	Total number of dwellings built	Of which those built				
		by private individuals	by companies	by local governments	for sale	for rent
1999	19 287	85.1	11.4	1.2	11.0	1.3
2000	21 583	83.3	14.5	0.9	13.6	0.7
2001	28 054	72.9	22.3	0.7	21.2	1.7
2002	31 511	63.3	29.8	4.0	29.7	4.1
2003	35 543	61.6	31.2	3.9	32.4	4.5
2004	43 913	58.3	36.6	1.3	39.9	1.5

A third of new dwellings were built in multi-storey buildings containing several dwellings, and 7% in housing estates. The proportion of small dwellings increased, and the average floor area decreased from 95 m² in 2003 to 93 m² in 2004.

Local governments play an insignificant part in dwelling construction on a national scale compared to private individuals and building companies. Fewer than 1400 local government houses were built in 2003, and only 570 in 2004.

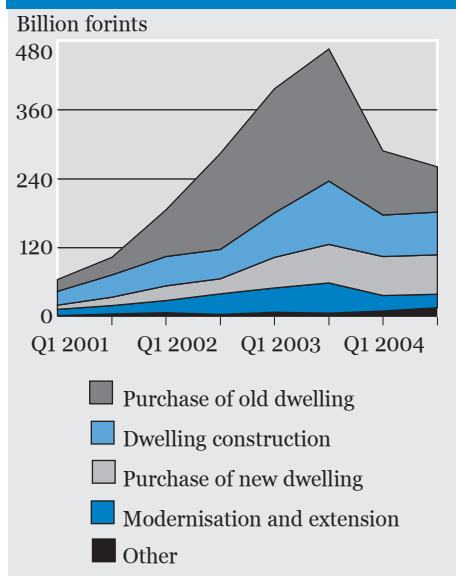
There was a several-fold rise in the number of new dwellings built for sale, accounting for a proportion of the total that has risen from one to four tenths over five years. Ups and downs in the building of houses for rent coincided with rises and falls in local government house building, although municipal housing has now been joined by commercially- and privately-owned rented dwellings.

The regional distribution of dwelling construction changed considerably in the few years up to 2004, and gaps widened. Advances were made primarily in urban, especially city housing, and the proportion of dwelling construction in villages diminished. The agglomeration towns experienced very large increases, and 70% of new dwellings were built there. This phenomenon was particularly striking in the agglomerations of Budapest, Western Transdanubia and Southern Transdanubia. The average rate of dwelling construction per unit of population in Northern Hungary and Southern Great Plain is less than half of that in Western Transdanubia.

The volume of **housing investments** increased by 13% in 2004, and its share of national investment went up from 23 to 25%, and its amount was equivalent to over 5% of GDP.

Housing loans totalled HUF 1,875 billion at the end of 2004, 9% of GDP. 7.6% of this sum comprised foreign exchange-based loans. In 2004, 124 thousand new loans were granted, of total amount HUF 512 billion, a fall of 37% by number and 39% by amount from 2003. This derives partly from falling demand and partly from changes in loan conditions. The proportion of state-subsidised loans granted decreased from 85 to 46%, partly due to the appearance of foreign exchange-based loans.

Housing loans and subsidies by purpose (at current prices)



The environment and its protection

Land under some kind of protection totalled 860 thousand hectares in 2003, and **protected areas** of national significance totalled 821 thousand hectares. The latter included 284 thousand hectares

appearing on the lists of Wetlands of International Importance and UNESCO biosphere reserves.

The health of the country's 1,823 thousand hectares of **forest**, measured by foliage loss, hardly changed over the thirteen years to 2004. A slight deterioration showed up in the decrease of symptom-free areas and the increase in slightly-damaged areas, so that much hitherto healthy forest is now damaged, if only slightly. Species better adapted to the ecological conditions (beech and hornbeam) show better resistance to environmental stress.

By European standards, a very large proportion of Hungary's territory (63%) is under **agricultural cultivation**. About half of the territory is arable land, and one fifth is land closer to nature – forests, reed beds or fishing lakes. The use of agro-chemicals fell sharply, mainly for economic reasons, in the early nineties, and has been rising slowly since then. In terms of active ingredients, 72 kg of artificial fertiliser was used in 2003 per one hectare of agricultural area, 2 kg less than the year before, and half of the amount used in Western European countries. Vine and fruit cultivation used the most artificial fertiliser. Pesticide use per hectare (1.28 kg) in 2003 was less than half the EU-15 average of 1999.

The area under state-subsidised **land improvement** projects has hardly changed. Land drainage accounted for 3,132 hectares of this in 2003, 61% less than the previous year, and land development for 2,310 hectares, 37% less. The land under soil protection projects was much smaller by comparison – 489 hectares – but still much larger than in previous years. Soil improvement projects increased in area by 76% in 2003 and, in contrast to previous years, were not confined solely to acid soils (71%): sandy

soils accounted for 21% and saline soils 7% of the total 16 thousand hectares concerned. Land improvement projects are most common in Western and Central Transdanubia and Northern Great Plain.

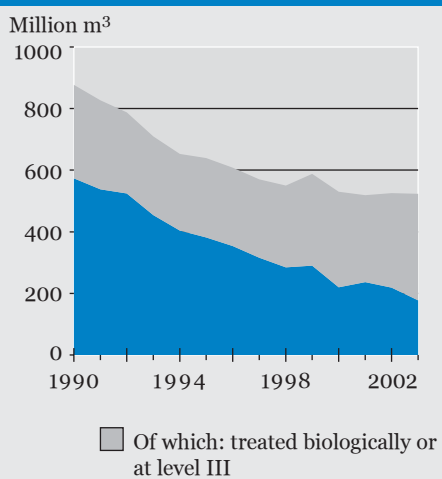
Land used for **organic farming** expanded to 2% of agricultural area in 2003, compared to the EU-15 average of 3.7% the previous year. There has been considerable expansion of organic farming, which is now pursued by 1,272 farmers (14% more than in 2002) on 117 thousand hectares (12% more). About half of the land changed over, or in the process of changing over, is arable, 42% is meadow and pasture, and 3% used for vine, fruit or vegetable cultivation.

National **water consumption** decreased by nearly 1.7 billion m³ or 25% during the 1990s, and varied between 5.2 and 5.4 billion m³ annually in the period 1999-2002. The decrease was mainly in irrigation and domestic use. This economising is largely explained by the rise of water and drainage charges at a rate faster than general inflation. The water quality parameters range between good and tolerable. The microbiological condition of waters in general, and the nutrient balance of some surface waters, was somewhat worse than this. In the analysis of drinking water at water works, 4% of bacteriological and 8.5% of chemical analysis samples were rated „unacceptable”. Drinking water had to be transported to 30 towns or villages in 2003, as against only three the previous year.

The **sewage system**, which also serves to protect drinking water sources, was extended by 2,560 km or 9% in 2003, and the proportion of dwellings connected increased by 3 percentage points to 59% by the end of the year. This compares with 41.6% at the end of 1990. Nonetheless, the quantity of sewage – owing to reductions in

water use – decreased by over 40% between 1990 and 2001, to 519 million m³, and was slightly higher than this in the next two years. 66% of sewage received at least biological treatment (35% in 1990). Hungary severely lags behind the EU in terms of both the drainage and treatment of sewage.

Sewage drained into public sewers



1.2 million tonnes of hazardous **waste** and 12.4 million tonnes of non-hazardous waste was generated in Hungary in 2003. (The latter does not include agricultural and food industry waste, much of which is returned to the biological cycle as biomass.) In towns and villages, 4.3 million tonnes of solid and 4.9 million m³ of liquid waste was uplifted from households, public waste stores and factories. 92% of dwellings were served by waste collection services, compared with 88% the year before (65% in 1990). Generation of solid waste might be a few hundred thousand tonnes greater than

collection, but in the case of sewage, the equivalent gap might be very wide indeed. Most solid waste not collected ends up in illegal dumps, and liquid waste seeps into the soil. 2.8 million tonnes of solid waste was uplifted from households in 2003, 2.6 million tonnes by normal refuse collection, 50 thousand tonnes selectively and 129 thousand tonnes in junk uplifts. Of municipal waste, about 4 million tonnes was placed in deposits (90%), 245 thousand tonnes (6%) was incinerated and 137 thousand tonnes (4%) recycled. The average figures for the EU-25 are lower for deposition (50%) and higher for incineration (17%) and recycling (33%).

Emission of the standard **atmospheric pollutants** decreased further in 2002. Sulphur dioxide emissions fell by 8.6% from the 2001 level, carbon monoxide by 2.1%, volatile non-methane organic compounds by 1.1% and solid matter by 2.7%. Emission of nitrogen oxides did not change. Of atmospheric pollutants, the quantity per capita of sulphur dioxide (35 kg) was the only one which exceeded the EU-25 average (20 kg). Sulphur dioxide pollution is largely a product of power generation, and nitrogen dioxide and carbon monoxide mainly comes from transport.

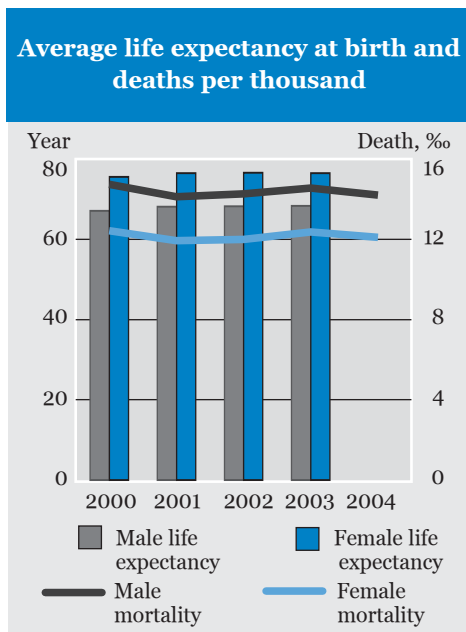
Of the main greenhouse gases, annual emissions of carbon dioxide from combustion of fossil fuels decreased by 1.9% in 2002, while those of methane increased by 4.5%. Per capita emission of the former was 36% less (5.6 kg), and that of the latter slightly greater than the EU averages. As a signatory to the Kyoto Protocol, Hungary is committed to reducing emissions of these pollutants. Structural changes in the economy have greatly assisted in achieving this, but further reductions will have to be made in the long term. At present, nine EU coun-

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tries have failed to attain the Kyoto targets. These are the four southern countries (Portugal, Italy, Spain, Greece), Ireland, Austria, the Netherlands, Belgium and Finland. Of the ozone-depleting gases, HCFC (hydrochloro-fluoro-carbons) emissions have decreased by 63% in Hungary, while methyl bromide emissions have not changed.

Health

After stagnation in 2002 and an increase in 2003, **deaths** among both sexes decreased in 2004. **Average life expectancy at birth** did not change in 2003 despite the higher number of deaths.



The life expectancy of Hungarian men has risen by 2 years, and that of Hungarian women by over 4 years since the early

1970s, compared to over 7 years for EU-15 citizens. Of babies born in 2003, those in the EU-15 countries can look forward to longer lives – 8 years for boys and 5 years for girls – than those born in Hungary, and even those in the new member countries – of both sexes – can expect to live a year and a half longer than Hungarian newborns.

The highest annual number of deaths per hundred thousand of the Hungarian population in recent decades was 1460, recorded in 1993. This figure decreased by one tenth to 1310 over the following eleven years. The only EU countries with higher death rates are Estonia and Latvia.

Living prospects are related to the type of settlement and the part of the country people live in. Those at highest risk are in small villages, i.e. those with population less than one thousand, where one in eight people live. Compared to the national average, in 2003 life expectancy was 2.7 years less for men and 1.3 years less for women living in small villages. The corresponding death rates were 16% and 7% higher than the national average respectively. The infant mortality rate in such villages was nearly double the national average. The best living prospects in 2003 were provided by towns of populations between 50 thousand and 100 thousand similarly to previous years.

Over half of deaths (682 per hundred thousand inhabitants) in 2003 were caused by cardiovascular diseases, principally heart and cerebrovascular diseases. Since its peak in 1983, the number of deaths due to the diseases of the circulatory system has decreased by 27%, but is still high by international comparison (Hungary is in about the middle range of new EU countries). Neoplasms are responsible for a quarter of Hungarian deaths, a number which has stag-

nated in recent years (336 per hundred thousand inhabitants). Hungarian men have been at the top of cancer death statistics in the EU-25 area since 1989, and women have led the field together with their Danish counterparts since the early 1970s. Diseases of the digestive system – above all liver diseases – caused a rising proportion of deaths until 2000, since when their frequency has been diminishing or staying the same (93 per hundred thousand inhabitants). Deaths from accidents, suicide and other external causes were of a similar order.

Hungarians' poor living prospects compared to their EU counterparts is mainly due to **living conditions and lifestyle**. Statistics on health behaviour for 2003⁷ show that 28 per cent of women and 41% of men **smoked**, most of them every day. A tenth of women and nearly a quarter of men were heavy smokers, i.e. smoking more than 20 cigarettes a day. Smoking was the most common among young people of both sexes: 38% of young women and 51% of young men were smokers. There were also regional variations in smoking habits: smoking was a third more frequent among people living in Northern Hungary than among those in Western Transdanubia. A further characteristic was the decreasing frequency of smoking with increasing personal wealth.

The number of **alcoholics** in Hungary was estimated at over 700 thousand in 2003, although only 5% of these attended care at addictological or psychiatric clinics.

On the basis of declared alcohol consumption, 2.5% of women and 18% of men are heavy drinkers, and 8% of women and 31% of men are moderate drinkers. For both sexes, heavy drinking is the most common among people of middle age. In the

EU-15 countries, 35% of men and 16% of women answered yes to the question whether they consume alcohol regularly.

On the basis of the internationally-accepted body mass index, 29% of women and 38% of men are **overweight**, and every fifth adult is **obese**. 70% of older men are overweight, and 10% of young women are pathologically thin. Hungary currently displays the trend, typical of developing countries, that obesity is more common among people who are better off. By occupation category, male senior managers are most likely to be overweight. Level of education is most significant among women: those with tertiary education have a 40% lower chance of obesity than those with only 8 years of primary education.

Drug addicts are estimated to number 30–50 thousand, regular users 80–100 thousand and those who have tried out drugs, 3–400 thousand. 17% more people requested treatment in 2003 than the year before, a total of 15 thousand, and 26% more (6 thousand) requested treatment for the first time. The increase was prompted by a 2003 amendment to the Hungarian Criminal Code offering treatment in an institution as an alternative to imprisonment for a wider section of drug users than before. 62% of those treated were men, most of them (69%) in the 15–30 age group. 35% of men under treatment were users of cannabis-type substances, and 20–20% were users of opiates and sedatives. Among women, it is mainly those between 15 and 30 and over 40 years old who attended clinics. More than half of the women under treatment used sedatives. 257 people – a figure probably reflecting less than the true number – died in conse-

⁷ From the 2003 National Public Health Survey.

quence of drug use in 2003, 60% of them sedatives.

Basic health care was provided by the same number of general practitioners (5,100) and child general practitioners (1,600) in 2003 as the year before, so that GP provision remained unchanged (1,510 inhabitants per doctor). However, the number of those consulting their GP and that of home visits increased by 2.4% and 5% among child GPs, to 56 and 10.5 million respectively. Doctors practising in villages met an average of 2000 more patients annually (12 thousand) in 2003 than their urban counterparts.

For children **up to the age of 18**, diseases of the blood and blood-forming organs, refractive irregularities involving the ocular muscles, asthma and dorsopathies caused the most problems. Among **adults**, cardiovascular diseases were the most common, of which high blood pressure was in first place (1.8 million cases), followed by diabetes mellitus and various spondylopathies.

In **dental surgeries**, there were 5% more adult visits (4.9 million) and 7% more child visits (1.6 million) in 2004 than the year before. Fewer and fewer permanent teeth are extracted in child dentistry: 42 thousand in 2004 compared to 79 thousand in 2001.

There was a further increase in **outpatient care** in 2003. The 5600 doctors and 15 thousand other health staff in this area spent 16,655 thousand hours with patients, 500 thousand hours more than the year before. The number of examinations per hundred of population, following a rise of 16% in 2002, went up by a further 8%. The highest numbers of examinations and treatments were carried out in laboratories, dental surgeries, medical departments and surgical departments. The highest increase

in attendance (45%) was experienced in psychiatric clinics.

Figures for **pulmonary clinics** show a falling incidence of tuberculosis and the increase in non-tubercular respiratory diseases. The number of registered tuberculous patients per hundred thousand of population decreased by 12%, while that of non-TB patients increased by 10%. 40 of every hundred new patients suffer from hay fever, 34 from asthma and 11 from chronic bronchitis. The fastest growth was among hay fever sufferers, of which 510 thousand were registered in 2003. 91% of screenings in clinics were lung screenings, and the rest multi-phase screenings. 40% of new pulmonary TB patients and 30% of new lung cancer patients were detected by screening. The number of multi-phase examinations has fallen to one tenth of the 1990 level, and in 2003 there were 20% fewer than the year before. 54% of these examinations aimed to detect heart diseases, 24% high blood pressure and 16% breast tumours. In 2003, 13 thousand colonoscopies were also carried out.

The country's 144 **psychiatric clinics** treated 137 thousand patients in 2003, 65% of them women. 40% of patients were in the 35–54 age-group. Over half of female patients suffered from mood disorders and anxiety symptoms, and 45% of male patients from mood disorders and schizophrenia. The number of registered patients at child and youth psychiatric clinics increased by 9% in 2003.

In-patient care in hospitals employed 12,500 doctors and 56 thousand other medical staff in 2003. Of the 80 thousand patient care beds, 76% were in acute and the rest in chronic wards. There was a national average of 79 working beds per ten thousand of population, but the figure for

Budapest was much higher (131). 2.8 million patients were treated in Hungarian hospitals in 2003, for an average period of 8.4 days. The number of the treated has hardly changed in recent years, but the period of treatment has slightly decreased. Bed utilisation grew with the reduction in the number of beds, and stood at 79% in 2003.

Social Services

The social service system assists socially disadvantaged groups and gives support to people in need. As the age distribution of the population changes, fewer young people but more and more elderly people are in need of care. The multi-level support system, however, is not keeping pace with demand.

There are some 4000 employees and volunteers in the family assistance service. The child welfare service has twice as many sites and effectively the same number of staff for its organisation-service-care functions. About half a million people use its services each year.

Over 300 thousand children are endangered, require guardianship or are placed in care for environmental, behavioural,

financial, health or other reasons. The number of endangered children has decreased over the last three years (to 225 thousand in 2004), but the number of children under 18 in guardianship or care increased (80 thousand).

In 2004, 17,600 children were living in **child protection care** outside the parental home, a slightly smaller number than in the previous year. 4200 were receiving follow-up care, the same number as in 2003.

There are fewer and fewer adoptions year by year, but the number of children available for adoption is rising. 750 adoptions were granted last year, 19 fewer than the previous year and 97 fewer than in 2002. Over a tenth of adopters are foreign.

Somewhat more than a tenth of 0–3 year-old children attended crèches, enabling mothers to work. Most of them (97%) were in crèches run by local governments.

Village and outlying-area (tanya) caretaker services were provided by 773 workers (converted to the number of full-time employees) in 2004. Home assistance services are used by 43–44 thousand people a year, and social meals services by over a hundred thousand. Two-thirds of workers

Family assistance and child welfare services

Year	Family assistance services				Child welfare services		
	number of units	users of services, thousand	number of employed persons	number of volunteers	number of units	users of services, thousand	number of employed persons
2002	805	310	2 455	1 629	1 587	207	3 906
2003	776	307	2 581	1 345	1 541	174	3 939
2004	991	326	2 759	..	1 882	170	3 828

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in home assistance are professionals, but their number is decreasing year by year.

The nearly 1300 clubs for the elderly had almost 40 thousand members in 2004, one thousand fewer than in 2003. Two and a half thousand attended disabled day centres.

At the end of 2004, 69 thousand people were living permanently in **social care homes**. About two-thirds of places are for elderly people, nearly a quarter for people with disabilities, 11% for psychiatric patients, and a small fraction for addicts and other people in need. Three quarters of places in residential homes were maintained by local governments and central budget.

modated 6300 homeless people, slightly more than a year earlier.

In the European Union, care for the elderly accounts for a much higher proportion of assistance within and outside the family (about 17% overall) than child care does (4%). In Hungary, care for the elderly is below average (13%) and that for upcoming generations is above average (7%). The most common recipients of care are unemployed people in Hungary and pensioners in EU-15 countries. Sending elderly people into residential homes is unpopular in Europe (considered acceptable by 12% of respondents), most people (two thirds) favouring care within the family.

Permanent residential and temporary accommodation institutions

Year	Number of			Place utilisation, %	Places per 10,000 inhabitants
	sites	places	residents		
2002	1 291	77 620	75 541	97	76
2003	1 332	79 861	77 386	97	79
2004	1 308	81 176	78 513	97	80

Assistance for homeless people is provided in **day centres** and **public kitchens**. The overall number of these has hardly changed in three years, but there has been a slight rise in the number of people attending day centres and a slight fall in the number of those attending public kitchens. Average daily attendance was 5 thousand at the former and 4 thousand at the latter.

Temporary accommodation institutions served 9400 people in 2004. Most places were for homeless people. At the end of 2004, hostels and night shelters accom-

Books, Culture and Entertainment

In 2004, Hungarian households spent 7% of their expenditure (HUF 428 billion) on culture in the broad sense – education, culture, holidays, entertainment. It was more than they spent on clothing or even health. The government spends another HUF 160–170 billion a year on the upkeep and operation of cultural institutions, nearly 1% of GDP. Most of the public's free time is taken up by television, entertainment electronics and the computer, with less and less

time being spent on culture in the classic sense – reading books and newspapers and going to the cinema or theatre.

The range of Hungarian and foreign-language television channels has expanded, and the **public service broadcast time** has also increased, to over 25 thousand hours in 2003. There has been no substantial change in the programme structure. The highest proportion of broadcasting time is taken up by news and current affairs (36%) followed by literary and entertainment programmes (25%). The broadcast time of public service radio is similar to that of television. Two fifths of that time is taken up by music, 31% by news, political, economic, current affairs and information programmes, and one tenth by literary and entertainment programmes. These proportions have not changed. Both media increasingly form a background to daily activity, and their use is closely related to the presence of computers and internet connections in households.

The range of books on sale has greatly expanded. Over 11 thousand **books** were in print in 2004, the highest number for several decades, but edited copies, in line with market conditions, continued to contract.

More educational, technical, scientific, literary and other books have appeared in the bookshops, and fewer textbooks. Literature tops the rankings of issues, followed by technical books, textbooks and educational books. The book market turnover was HUF 58 billion in 2004. However, taking prices into account, the volume of sales decreased by about three and a half per cent. Sales remain highest in the textbook and educational categories, jointly accounting for over half of the total.

There are over 9 thousand working public, specialised and school **libraries**. School libraries make up half of the total. Public libraries, with the widest readership, contain about a third of all books, bound journals, microfilms and audiovisual and other materials – 45 million library units. The number of registered readers increased by 62 thousand in 2003 to nearly a million and a half, while the number of units lent continued to decline (33.5 million). Every seventh member of the public is registered at a library, and one third of these are children. Registered readers borrow one book every two weeks on average.

In the **printed press**, the daily newspaper with the highest circulation in 2003 was the free-distribution Metro, and in 2004 it was Blikk, with an average circulation of over 300 thousand, followed by Népszabadság, with 186 thousand. The highest-circulation weekly papers were the television weekly TVR-Hét and the magazine Story (340–350 thousand).

There were 531 **cinema screens** operating in 2004, where 448 thousand screenings were made. The number of screens decreased by 23 in 2003 and by 49 in 2004. However, the number of screenings, having decreased in 2003, increased by 6 thousand in 2004. The total audience was 13.6 million, 400 thousand fewer than in 2003. Ticket revenue per cinemagoer increased by 6.4% at current prices to HUF 799. Hungarian films regained their popularity, accounting for 10.3% of tickets as against only 4.9% in 2003.

One new **theatre** opened its doors during the year, and performances were held in 55. Tickets sold for the 13,800 theatre events numbered 4.2 million. There were 287 more performances and

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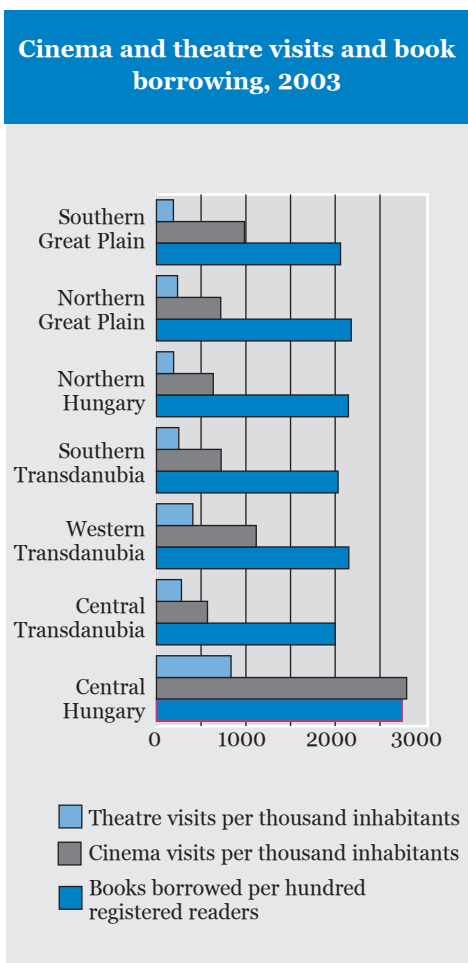
41 thousand more visitors than the previous year.

According to statistics gathered by the National Philharmonia, there were somewhat fewer opportunities for musicians to perform and fewer occasions for concertgoers in 2004 than the previous year. There were 1395 performances, and a total audience of 455 thousand.

There were 794 **museums, museum collections and exhibition sites** and 2706 events there in 2004. Large collection exhibitions, the „museums' night” and other cultural events helped to raise the number of museum visits to 11.4 million.

Interest in cultural events, which bears a close relation to the accessibility of different forms of culture, the age distribution of the population, level of education, occupational position and financial standing, differs from region to region. Central Hungary's leading position as regards the majority of indicators derives from the dominant role of the capital city. The lowest rate of cinema visits is in Central Transdanubia, of theatre visits in Southern Great Plain and of library visits in Southern Transdanubia. The gaps are narrowest in book lending and widest in theatre visits.

There were 3700 **arts and community centres** in Hungary in 2003, nearly 400 more than the year before. They held 11,100 educational lectures, attended by an average of 40 people. The number of events fell further, but audiences rose again to a total of 530 thousand. There were 22,700 evening performances, attended by a total audience of 5.3 million. This represented an increase of 8% in performances and a slight decrease in audiences over the year before. There were 9300 artistic societies with 183 thousand members, both figures indicating a rise in interest. Clubs numbered over 8800, 13% more than in 2002 and nearly twice as many as in 2000. Interest in clubs rose by nearly a quarter on the year before, with the number of attendants by over 310 thousand.



Crime and the Judiciary*

The number of **crimes** recorded by the police, after a slight decrease in the previous two years, increased modestly. 419 thousand crimes were cleared up in 2004, nearly half of which had been committed in previous years. There were 4140 crimes per hundred thousand of population, 69 more than the year before. 41% of crimes were felonies, the rest misdemeanours. The number of misdemeanours was unchanged from 2003, but the number of serious crimes, having gone down the previous year, went up by 4%.

Crimes against property, making up 63% of the total, were 5% fewer than the year before, and there were also 14% fewer crimes against the integrity of state administration, the judiciary and public life (i.e. corruption). In the other main crime categories – except crimes against the person and transport crimes, where there were rises of 5 and 9.8% respectively – there were double-digit increases.

By contrast, the number of homicides fell to 208 from 227 the previous year, but there were more cases of deliberate bodily harm. Alcohol was involved in the majority of transport crimes. The crime category with the largest rise (2.3-fold) was crimes against marriage, family, youth and sexual morals, and the number of recorded victims increased even faster (3.3-fold). These were largely due to the rise in the number of recorded abuses of banned pornographic photographs and other forms of violence in this category. Among crimes against public order, the number of drug abuse cases doubled, and forgeries of public documents

increased at a rate higher than the average. In the economic crimes category, there were substantial rises in counterfeiting of money, computer fraud, use of counterfeit money and bankruptcy fraud.

The number of recorded child **offenders** below the age of criminal responsibility was nearly 4 thousand in 2004, 12% more than the year before. The number of offenders⁸ has been gradually rising for several years, and went up by 12 thousand to 130 thousand last year. Although the proportion of women increased, the vast majority (85%) are men. 62% of offenders had no previous criminal record. The number of offenders without criminal records rose faster than that of repeated offenders or recidivists. Alcohol or drugs were involved in the offences of more than one fifth of offenders. Although alcohol has a much higher significance than drugs, the number of people who offend under the influence of drugs went up by a factor of 2.2 over the previous year, and the number of those acting under the influence of drugs or a combination of more than one substance went up by half. There were 18% more young offenders than in 2003, and they made up one tenth of the total. Taking account of the demographic distribution, the crime rate among children and young people increased considerably.

There were 246 thousand **victims of crime** in 2004, of which 96% were recorded by the police. The number of unknown victims increased by nearly 10%. The number of recorded victims has been changing slowly for several years. The number of child victims more than

* Source of data: Ministry of the Interior.

⁸ Including those not informed of suspicion but suspected of having committed a crime.

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doubled last year owing to figures for abuse of banned pornographic photographs. There were 22% more victims among young people and 7% more among the 60-and-over age group. 2% more people were victims of crime in public places, and 7% more of crimes of violence and disorder.

The number of **convictions** increased by 5% to over 98,000. 99% of sentences were handed down on the basis of a public prosecution. The number of convictions on private prosecutions, following a drop the previous year, rose by 209 to 963.

The vast majority of sentences are fines, independently imposed auxiliary punish-

ments and measures, suspended custodial sentences or community service. The number of executable custodial sentences was 10,600, 10% fewer than in 2003. The decrease among young people was of 19%. (Young people accounted for 3.6% of convicts.)

There were 16,500 people held in penal institutions in 2004, remaining practically the same (36 more) as the previous year, when the number decreased considerably. 74% of those held were convicts and 25% were on remand. The rest were referred for compulsory treatment or confinement, or were held in detention.

Course and State of Economic Development

International Economic Climate, Economic Growth

In the economically advanced regions of the world, a three-year economic downturn reached its low point in the first half of 2003. The following wave of economic recovery started in the United States of America and spread, with varying time lags and intensity, throughout the advanced economies of the world. The upward economic trend lasted for a shorter than expected time. The rate of growth had already slowed down slightly by the second half of 2004.

In the **United States of America**, gross domestic product (GDP) rose by 3.1% in 2003 and 4.4% in 2004. Although annual growth accelerated, intra-annual trends in 2004 indicated a faltering of the economic recovery. The slowdown was due to several factors: the rising world price of crude oil and the moderate vigour in exports and internal demand. Another crude contributory factor was the delay and modest extent of the upturn in the European Union, acting as a brake on the global recovery.

The several-year depression in the pre-enlargement **European Union** (EU-15) continued into 2003. GDP growth failed to reach 1% over the year or even in the last quarter. By contrast, a marked improvement in 2004 culminated in an annual growth figure of 2.3%. The economic development of the 10 new member states was more dynamic, however their relatively small economic weight within the EU, could only raise the growth rate of the

enlarged European Union by 0.1 percentage point to 2.4%. The slowing trend started in the second half of the year had a more severe effect on the advanced member countries, although the rate of growth also slackened in most NMSs.

One reason for the late appearance and modest extent of the European Union's economic recovery was the appreciation of the euro against the dollar. The strong euro impaired the region's competitiveness on the world market, holding back exports and thus economic growth. US economic policy also contributed to this process, as the dollar exchange rate was forced low in the election year to stimulate economic growth. In addition, the progress of recovery in the EU was restrained by the strict rules of the stability and growth pact and by the cautious interest rate policy of the European Central Bank.

The development of the **Hungarian economy** followed world trends in 2003 and 2004. GDP grew by 2.9% in 2003 and 4% in 2004. The growth rate in the second half of 2004 was slower than in the same period of the previous year, but remained high compared with the EU average. The Hungarian growth rate in 2003 was lower than the Czech, Slovakian and Polish, but higher than the Slovenian. In 2004 Slovenia too had a higher growth rate, but the Czech performance equalled the Hungarian growth rate. Hungary's relative growth shortfall must be set against its more even growth than in the above mentioned countries over the last few years: its average rate of growth between 2001 and 2004 was higher than all except Slovakia.



In Hungary, the economic slowdown lasted also until mid-2003. GDP growth was lowest in the second quarter of that year. The **trend reversed in the second half of 2003**, when the economy started to recover.⁹ The change was based on the rising **export demand**. Total exports (of both goods and services), following a very small first term rise, went up much faster in the third quarter and even faster in the fourth. Another contribution to higher GDP growth in the second half was the more vigorous **fixed capital formation**. Stagnation in the first half of the year gave way to above-average growth in the second. There were positive changes in the structure of investments. In manufacturing industry – a fundamental determinant of exports and thus of economic growth – capital investments grew by 13%. At the same time, public capital expenditure (in public administration, defence, education and health) fell short of the previous year's

level. (Public capital expenditure rose by 22% in 2002.)

The growth rate of **household consumption** slackened at the end of 2003, but the annual figure of 7.2% was still twice what could be borne by domestic sources. This was related to the extremely high income outflow that took place, or at least started, in previous years.

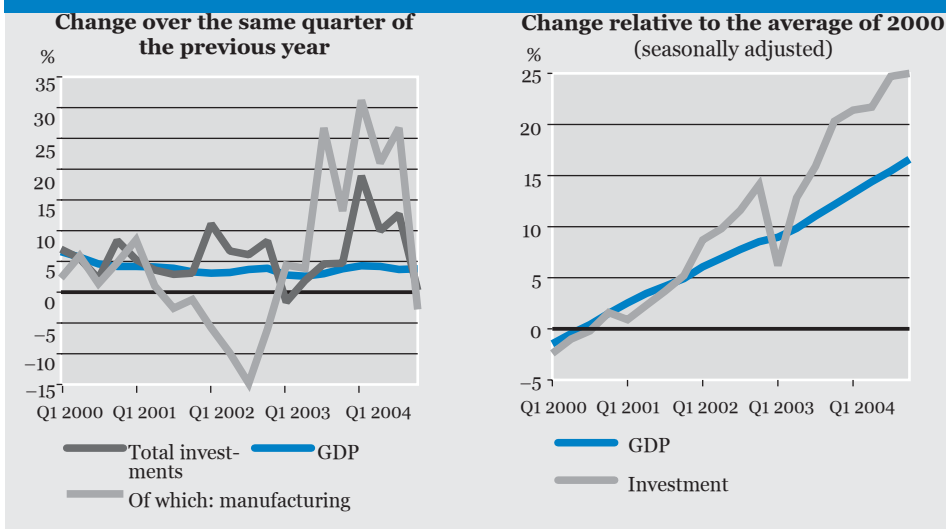
The country covered the difference between surplus use and GDP from foreign sources. The overall balance of foreign trade (goods and services) indicates the equilibrium position of the real economy. The 2003 **import surplus** (at current prices) was HUF 829 billion, nearly twice that of the previous year. The deficit widened more slowly by the end of the year owing to the upturn in exports, and the deficit in the fourth quarter itself was somewhat smaller than in the same period of the previous year.

The key contributor to accelerating economic growth on the **production** side was **industry**. The gross value added of industry in the 3rd and 4th quarters considerably surpassed that of the same periods of the previous year. The contraction of agricultural output, primarily as a consequence of poor grain harvest, slackened the pace of economic growth.

2004 saw a continuation of the trends, which had started in the second half of the previous year in several key areas of the economy. The rate of GDP growth was higher than in 2003, but slowed down slightly in the second half of the year. On the demand side, the 4% annual economic growth rate was, once again, based on **exports** and **capital formation**. Total exports, having grown by 8% in 2003, went

⁹ The quarterly figures describing the trends have not been fully reconciled with the reviewed annual data for 2003. Preliminary data indicate that corrections are unlikely to affect the main trends.

Growth of GDP and investments



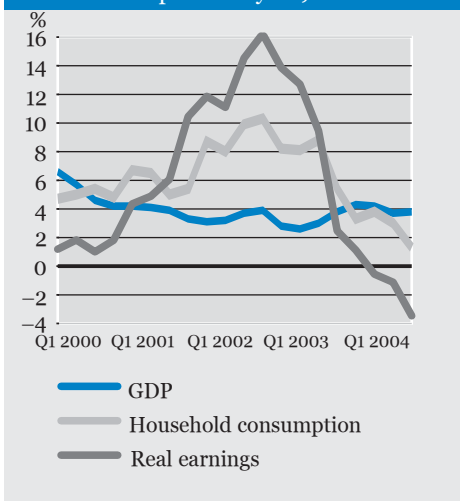
up by a further 16% in 2004, owing partly to the foreign economic recovery and partly to the expansion of manufacturing capacity capable of producing competitive goods. Investment demand was 8% higher, and the acceleration of growth stemmed from the three largest sectors (manufacture, transport and real estate and business activities). Manufacturing enterprises raised their development expenditure by 15% in 2004, following an even higher rise (17%) a year before.

The largest component of domestic use, **household consumption**, grew by 2.8% in 2004, which – unlike the previous three years – was slower than GDP growth. The structure of GDP use thus took a favourable turn in terms of the future development and equilibrium of the economy. The gap between income generated and spent within the country narrowed. The slowing growth of consumer demand is the consequence of income policy aimed at restoring equilibri-

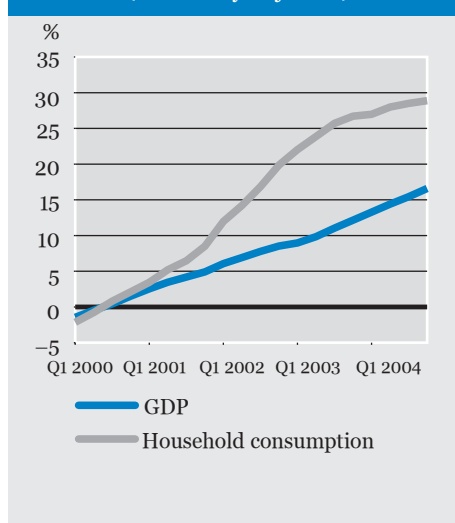
um. Real earnings, of key significance for household income, fell by 1% in 2004. This must be assessed in the light of increases in real earnings of 14% in 2002 and 9% in 2003: i.e. 24% in two years, during which time GDP grew by only 7%.

Economic growth lost some pace during the year. This was related to setbacks in the world economy, especially in the European Union, but also to the „base effect“. The more modest growth in the second half of 2004 – as a consequence of the mid-2003 – 2003 change in trend was achieved on a higher base. The changing forint exchange rate also played a part in the slowdown. Exports and production were stimulated by the steady depreciation from the beginning of the year to the end of May (average 3%), but were subsequently inhibited by appreciation in the following months (average 5%). An income policy aimed at restoring economic equilibrium had the effect of slowing growth in domestic demand, and

Growth of GDP, consumption and real earnings
(changes relative to same quarter of the previous year)



Growth of GDP and consumption relative to the average of 2000
(seasonally adjusted)



thus also contributed to the diminished economic growth.

The **total foreign trade deficit** in 2004 was HUF 756 billion, 72 billion smaller than the previous year. In GDP terms, the deficit went down even further, from 4.2 to 3.7%. This figure is not very high in international comparison. In the European Union, the deficit is normally higher in the southern European countries.

On the **output side**, the pace of economic growth in 2004 was dominated by the productive sectors. The value added (contribution to GDP) of industry and construction grew faster than average. Agricultural output, following the previous year's setback, increased sharply. Services progressed to a smaller extent than the economy as a whole.

Gross National Income (GNI)

Gross National Income (GNI), a macroindicator derived from GDP, is now widely used in inter-

national statistics and is prescribed by Eurostat for use in the EU member states.¹⁰

Unlike GDP, GNI does not include income created in **Hungary** by foreign capital, but does include income of Hungarian-owned capital operating **abroad** (dividend, interest, etc.). The situation is similar for employee income. In Hungary to date, the role of foreign proprietary income has been dominant. 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.

Since there is substantially more foreign capital in Hungary than Hungarian capital abroad, GNI is smaller than GDP – by some 5%.

GNI grew by 3.4% in 2002, the same rate as GDP. In 2003, a 0.6 percentage

¹⁰ Part of the member states' contributions to the European Union are linked to GNI.

point gap arose between the two macro-indicators in favour of GNI, which grew by 3.5% against 2.9% for GDP.

Foreign direct investment is well established in Hungary, but in recent years Hungarian capital has also been invested abroad. However, it is still a fraction of the capital flow in the inward direction.

lized its ratio at around 30%. (Enterprises are classified according to the principle of majority ownership.) The exact proportions in 2003 were 70.2 and 29.8% respectively.

Public ownership is substantial in non-market sectors, and has remained exclusive in public administration and defence and dominant in education and health. How-

GDP and GNI			
(at current prices, billion HUF)			
Ownership	2001	2002	2003
GDP	14 850	16 740	18 409
Balance of labour income	45	37	35
Balance of net proprietary income	-852	-964	-964
Of which reinvested earnings	-386	-456	-445
Overall correction	-806	-928	-929
GNI	14 043	15 518	17 480

Proprietary income either leaves the country or is reinvested in Hungary by the foreign owners. Nearly half (46-47%) of total capital income was reinvested in 2002 and 2003, a much higher proportion than previously (37% in 2000). This indicates that investors who have set up operations here find it worthwhile to plough their earnings back into the Hungarian economy.

Ownership in the Economy

By the mid-1990s, ownership in the economy had basically reached the proportions that obtain today. Since 1996, some 70% of gross value added has been produced by the private sector, and the public sector stabi-

ever, private ownership has made its appearance – and is becoming increasingly significant – in the latter two sectors. In 2003, privately-owned organisations accounted for some 30% of output in health and social services and 15% in education.

Distribution of value added by ownership			
(at current prices)			
(%)			
Ownership sector	2001	2002	2003
Public	27.4	29.0	29.9
Domestic private	50.5	48.8	47.2
Foreign	22.1	22.3	22.9

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The increase in the proportion of publicly owned enterprises by value added is a consequence of pay rises in budgetary institutions. The output statistics of non-market sectors are determined on the basis of expenditure, so that wage rises appear as an increase in value added. In 2002, value added at current prices rose by 23% in public administration and defence, 21% in health and 24% in education. The increase in value added of the whole economy at current prices was of 13%. The faster growth in non-market sectors continued in 2003, and was largely behind the 2.5 percentage point rise in the ratio of publicly-owned organisations' value added over two years.

turing (manufacture of electrical and optical equipment and manufacture of transport equipment).

Structure of the Economy

The major sectoral restructuring of economic output associated with the change-over to market economy took place in the first half of the 1990s. Movements in the structure of the economy since then were determined on one hand by the gradual convergence to the sectoral proportions characteristic of advanced countries and on the other hand by the changes in external and internal economic conditions.

Sectoral distribution of value added

	Hungary		EU-25	NMS-10	
	2000	2002	2003		
Agriculture	4.2	3.7	3.3	2.1	3.2
Industry	28.7	24.9	25.5	21.2	25.8
Construction	4.6	5.3	4.9	5.6	6.0
Services	62.4	66.1	66.3	71.2	64.9

Publicly owned enterprises represent a major proportion of the transport, storage, post and telecommunications sector, where 47% of the annual value added in 2003 was created in large state enterprises.

The rise in the proportion of **foreign-owned** enterprises has slowed in recent years. Their contribution to GDP of 15-16% in the mid-1990s rose to 22% by the turn of the millennium, and was 23% in 2003. Foreign ownership is highest in manufacturing (58% in 2003). It is strikingly high in the fastest-growing sections of manufac-

One key trend is the falling share of **agriculture** in gross value added, declining by 1 percentage point between 2001 and 2003, to 3.3%. The EU-25 average in 2003 was 2.1%. A similar downward trend in the EU-15 has levelled out. Owing to outstandingly high harvests in 2004, estimates indicate that the contribution of agriculture to value added in Hungary went against the decade-and-a-half-long trend and rose slightly. Crop and animal production made approximately equal contributions to gross output at the turn of the millennium, but the decreasing volume of animal breeding

and the record harvests of 2004 caused a relative rise in the crop proportion to 62% (56% in 2003).

Industry's significance in the Hungarian economy, resulted from both its weight and growth rate, at the end of the last decade. Its contribution to value added reached its peak of 28.7% in 2000. The world economic downturn of 2000-2001 took its toll on the sector, slowing the growth of its value added in volume terms and reducing its share in the national economy to 24.9%. In 2003, the expansion of manufacturing export sales led to another acceleration of growth, and industry's share rose to 25.5%. This trend continued in 2004, and so its share can be expected to have grown slightly again. The three branches of engineering¹¹ were the locomotive of industry in recent years, their aggregate share in manufacturing output rose to 48%. Light industry and the manufacture of food products continued to lose ground, and the contribution of chemical industry has been at around 14% for several years.

According to 2003 figures, the share of industry in the Hungarian economy is the fifth highest in the enlarged EU, behind only Ireland, the Czech Republic, Slovenia and Slovakia. Industry accounts for a gradually receding share of the EU economy, decreasing from 22.6 to 21% between 2000 and 2003.

Construction has undergone only minor fluctuations. Its share in value added of Hungary in recent years has been around 5% as against an average of 5.6% in the EU-25.

The **services sector** has contributed an increasing share of value added in both Hungary and the EU in recent years:

between 2000 and 2003 its value added rose from 62.7 to 66.3% of the total in Hungary and from 69.7 to 71.0% in the EU-25. In Hungary, the growth was almost purely due to state-financed sectors providing non-market services (public administration, education, health); their contribution to value added during these three years climbed from 16.3 to 20.6%. These sectors also grew relatively in the EU-25 between 2002 and 2003, to 22.3%. The significance of financial intermediation is becoming relatively larger in the EU-25 year by year. In 2003 its share was 27.3%, as against 21% in Hungary, almost unchanged on 2000. The third services category covering trade, repair, transport and telecommunications, has been losing ground in Hungary since the end of the nineties, and was 20.8% in 2003, as against 21.6% in the EU, the same as the average of previous years.

State of Economic Development

The internationally accepted indicator for comparing different countries' levels of development is per capita GDP at purchasing power parity.

Per capita GDP figures for countries participating in the comparison are converted from national currencies to a common currency (PPS). This eliminates distortions arising from official bank exchange rates.

In Hungary, **GDP per capita** in 2003 was equal to 60% of the average of the 25-member European Union. In the ranking of development by this indicator, Hungary was in 20th place. Of the 10 NMSs of the EU, Hungary lay behind the two island countries, Cyprus (with 82% of the average) and Malta (73%), Slovenia (76%) and the

¹¹ Manufacture of machinery and equipment, manufacture of electrical and optical equipment, and manufacture of transport equipment.

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Czech Republic (70%). Behind Hungary in the development rankings were Slovakia (52%), Poland (46%) and the three Baltic states (41–48%).

Hungary's place in the development rankings has not changed since 2000, when the same countries laid behind it. Although Hungary's place in the rankings is unchanged, Slovakia immediately behind us has lost some ground relative to Hungary, while the advance of the Czech Republic immediately ahead of us decreased.

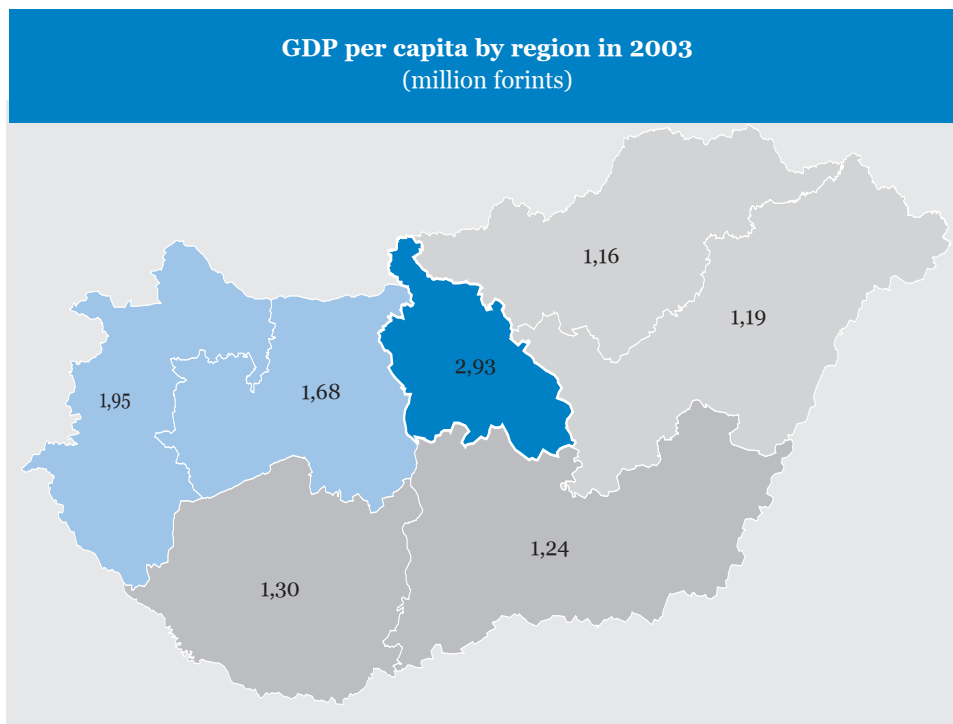
The extent of differentiation is indicated by the fact that the 5 EU countries at the head of the field have per capita GDP at least 20% above the average. This group comprises Luxembourg, Ireland, Denmark, Austria and the Netherlands. The second group, in which development also exceeds

EU average but to a smaller extent includes seven countries: Belgium, the United Kingdom, Sweden, Finland, France, Germany and Italy.

The development level of somewhat over half (13) of member countries is under the EU average. There are very wide differences among the below-average development countries. The two extreme figures are those of Spain (97% of the average) and Latvia (41%). Of the candidate countries, Romania and Bulgaria both stood at 30% of the EU average on the basis of 2003 figures.

Regional Distribution of GDP

In 2003, 45% of GDP was produced in Central Hungary, 28% in the three Transdanubian regions and 27% in the



northern and Great Plain regions. The economic development of the regions by per capita GDP displays wide variations. The top of the development list is occupied by the Central Hungary region including Budapest, where per capita GDP was 1.6 times the national average in 2003. Western Transdanubia, in second place, had per capita GDP 8% above the average.

Five of the country's seven regions lay below average in terms of per capita GDP. Central Transdanubia had the smallest fall-back to the average (8%), Northern Hungary had the lowest (36% below the average) GDP per capita.

The ratio of per capita GDP between the most and the least developed regions in Hungary was 2.5 in 2003. This differential little changed on the year before, when the ratio between the two extreme figures had been even larger: 2.6.

Capital Investment

Gross fixed capital formation increased by 2.5% in 2003 and 8.3% in 2004. The figure for 2003 was slightly behind, and that for 2004 as for previous years substantially ahead, of annual GDP growth, and the share of gross fixed capital formation in GDP rose to 22.5% at current prices in 2004.

Average gross fixed capital formation in the **EU-25** stagnated in 2003, and increased by 2.9% in 2004. The average growth in the 10 new member states was of 3% in 2003 and of 7% in 2004. In the US, a decline in 2001-2002 gave way to increases of 4.5 and 9% respectively in the following two years. Gross fixed capital formation as a proportion of GDP averaged 19.5% in the EU, similarly to the US. Hungary was in mid-range on the ranking of countries by

this scale, ahead of most of the advanced countries, but behind the new Central and Eastern European member countries apart from Lithuania and Poland.

Investments continue to form 90% of fixed capital formation, so the rate of investment is 20.2%. Investment value at current prices was HUF 3.7 trillion in 2003 and 4.1 trillion in 2004. The steady growth of investments since 2000 faltered in the first quarter of 2003, when there was a slight decrease. Although the rapid growth in the remainder of the year (primarily in manufacturing industry) restored the rate to the trend of previous years, the investment growth over the year as a whole (1.2%) fell short of the average of previous years. In the first three quarters of 2004, investments were 13.2% up on the same period of the previous year, but in the fourth quarter they stagnated, so that overall annual growth was 7.8%.

The distribution of investments by **legal form** has changed considerably over recent years. The share of government-financed investments fell to 12% from a peak of 18% two years before. Private sector investments rose from 58 to 59% of the total. The surge in dwelling construction caused the share of investments related to other economic activity to rise from 24 to 29% in two years.

While road construction, other state investments and the sustained boom in housing were the main sources of growth in 2001 and 2002, an upsurge of manufacturing developments transferred this position to machinery investments – mainly imported – in 2003. Growth was more balanced in 2004: house and road building caused construction investments to grow by 8.8%, and continuing manufacturing projects led to a 7.1% growth in machinery investments.

Construction investments have been steadily raising their proportion of the total in recent years (falling only slightly in 2003), and stood at 56% in 2004. 43% of all investments are in machinery, 20% of which are imported. A three-year slide in imported machinery prices is one of the reasons behind the faster growth of investments in imported than domestic machinery in 2003-2004.

As regards **sectoral distribution**, it is striking that the two sectors of the economy pursuing the greatest investment activity (together 53% of the total) were the engines of growth in the last two years. One of them – real estate, renting and business activities – has been growing particularly fast since 1999, by virtue of housing. Investments there rose by 11% in 2003 and 13% in 2004. Manufacturing, following a two-year decline, raised its investments by 15–17% respectively in these two years. Investments were particularly lively in engineering, increasing by 41% in transport equipment manufacture and by 15 and 23% respectively in the other two engineering subsectors.

Investments in the transport, storage post and telecommunications sector decreased by 22% in 2003, but road building brought them up by 15% in 2004. Agricultural investments, after substantial growth in the previous three years, contracted by nearly a quarter in 2004 after subsidies were cut following EU accession. The four economic sectors implementing developments predominantly with major state support – public administration, education, health and other services – reduced their investments by 16% in 2003, and although this level was sustained in 2004, education and health saw further reductions.

¹² World Investment Report, United Nations, New York and Geneva, 2004.

Foreign-owned companies in Hungary effected 3% more investments in 2003 than the previous year, of total value HUF 894 billion. However, their share in overall investments in the private sector fell from 43 to 40% (it had been 52% in 2000). In manufacturing, their investments were 11% higher than in 2002, by virtue of large-scale engineering industry developments, bringing their share up to 63% (from 59% in 2002). Only a quarter of foreign-owned companies' investments are in the construction category, and a larger-than-national-average proportion of their machinery investments are in imported machinery.

Foreign Direct Investment (FDI)

Total stock of world foreign direct investment,¹² following a substantial decline in 2001, climbed at the annual rate of 12% in 2002 and 2003 to 8.2 trillion dollars at the end of 2003. Advanced countries and Central and Eastern European countries took an increasing share of this, at the expense of developing countries. As a result, in 2003, advanced countries received some seven tenths of foreign direct investment, Central and Eastern European countries 3.2%, while about three tenths went to developing countries. In Central and Eastern Europe, Hungary was in third place in the foreign direct investment ranking behind Russia and Poland, but at the top in terms of investment per capita.

89% of the world's foreign direct investment was exported by advanced countries, 10% by developing countries and 0.8% by Central and Eastern European countries in 2003.

The stock of **foreign direct investment in Hungary** at market value increased by nearly 12% in 2002 and 24% in 2003 over a year, standing at HUF 8.7 trillion at the end of 2003. Three fifths of FDI at the end of 2003 originated from three countries: Germany (29%), the Netherlands (20%) and Austria (11%). The share of the fourth largest investor country, the United States, decreased slightly over 2002, to hardly over 5%.

The concentration of FDI in Central Hungary, and particularly in Budapest, lessened slightly, but over 62% of the total remained in the region and 52% in the capital city (according to figures compiled on the basis of companies' registered head-quarter.) In second place was Western Transdanubia with 12%, followed by Central Transdanubia with 10%. Southern Transdanubia has the lowest share of foreign capital – less than 2%.

Enterprises of foreign interest – a category which includes those both partly and completely in foreign ownership – constituted 8% of all companies in 2003, but incorporated 51% of all private-sector equity capital. When joint ownership proportions are taken into account, actual foreign capital constituted 86% of this amount, and 45% of total equity capital. Following the trend of previous years, the number of enterprises in majority or 100% foreign ownership increased, and that in majority Hungarian ownership decreased.

Relative foreign equity holdings increased to the greatest extent in real estate, renting and business activities and financial intermediation in 2003, and decreased in manufacturing industry and trade, the sectors, which had taken up the

greatest capital in the previous two years. Foreign ownership in the manufacture of transport equipment – almost in absolute foreign ownership – increased further. The foreign share of equity capital in electrical and optical equipment manufacture decreased, but was still 69%. There is still a very low presence of foreign capital in agriculture.

Enterprises of foreign interest¹³ had a share of 41% in investments and about 25% in employment in both 2002 and 2003. Their share in foreign trade, having risen year by year to 79% of imports and 83% of exports in 2002, went against the trend in 2003 and fell to 75 and 80% respectively. At the same time, the trade deficit arising in this category shrank to a quarter of the total. Three quarters of imports and over four fifths of exports of foreign-controlled companies were traded with the advanced countries, particularly the European Union, where machinery and transport equipment made up the majority of both imports and exports. Germany is still the top foreign trade partner.

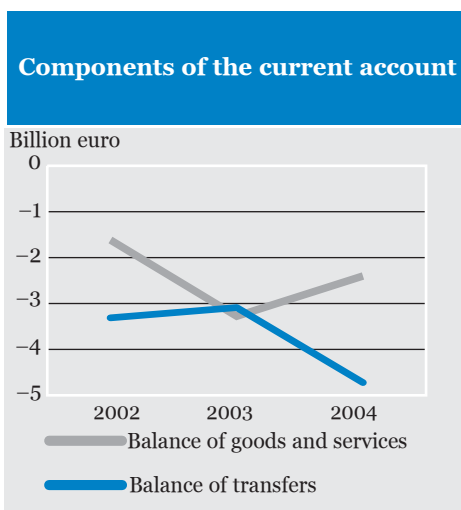
Capital invested by Hungarian businesses abroad, from HUF 450 billion in 2002, grew by half in 2003 to HUF 673 billion. The trend of declining Hungarian capital exports to the advanced countries in favour of the Central and Eastern European region continued in 2003. The latter took 65% of the total in 2003. 22% of Hungarian capital outflow was to Slovakia, 14% to Croatia, 13% to the Netherlands and 10% to Macedonia. A rising proportion of capital invested abroad is in financial intermediation (42%) followed by manufacturing industry (32%), and trade and repair (17%).

¹³ Including only those companies, which submit corporation tax returns. These figures, and those that follow, do not cover financial intermediation.

Economic Equilibrium

Balance of Payments, Foreign Debt *

The **current account** deficit in 2003 was considerably – by €1.4 billion – larger than the year before, and stood at €6.4 billion or 8.7% of GDP. In 2004, it increased more slowly than in 2003, to €7.1 billion or 8.9% of GDP. Hungary's current account deficit in GDP terms is high compared to most economically advanced countries. In 2003, there was an average surplus of 0.3% in the EU-15 and 0.2% in the EU-25. (All new member states except Slovenia had deficits.) In GDP terms, Japan's current account showed a 3.2% surplus and the US's a 4.9% deficit.



The rise in the current account deficit in 2003 and 2004 was due to different trends. Whereas the deteriorating balance on

goods and services was governed by the improving balance of transfers in 2003, these movements reversed in 2004. Deterioration in the balance of transfers was accompanied by an improvement in the balance on goods and services activities.

In the balance on goods and services, the 2003 goods import surplus increased by €0.7 billion over the year before, and then went down by 0.5 billion in 2004, mainly owing to the rise in exports in the second half of the year. The balance of services changed from a surplus in previous years to a €0.4 billion deficit in 2003. The drop thus totalled nearly €1 billion, of which three fifths was due to rising deficit on non-travel services and the rest to the decreasing travel surplus. In 2004, revenue from travel, and thus the travel surplus, further diminished at similar rates to the previous year. By contrast, the deficit of other services lessened by €0.7 billion as revenues rose steeply (19%) and expenditures stagnated. The combined result was practically to cease the previous year's deficit of the services account to almost zero (€10 million).

In the 2003 balance of transfers, net income outflows were smaller than the year before. This was fundamentally due to lower reinvested non-debt related earnings, almost level dividends and distributed income, and increased debt-related income outflows. In 2004, net interest-like expenditures (interest burden) related to foreign debt increased by 64% and non debt-rela-

* Source of data: National Bank of Hungary.

ted incomes by 24% on the year before. The surplus on remuneration of people employed for less than one year lessened to €126 million in 2004. The surplus of current transfers increased by 13% in 2003 to nearly €0.6 billion. This item is the account for Hungary's contribution to the EU budget, which partly explains why, in 2004, it shrank by two thirds to €0.2 billion.

Funds received from the European Union for development and investment are included in the **capital account**. Against the 32 million euro deficit of 2003, this showed a surplus of €318 million in 2004. The aggregate balance of the current and the capital account shows the external finance demand, which in 2003 was higher than the current account deficit, but in 2004 reduced it by €0.3 billion.

Non debt creating financing covered over half of the current account deficit in 2002. In 2003, there was a net outflow of €7 million. The sharp increase in Hungarians' foreign investments was a factor in this, but foreign direct investment in Hungary was hardly more than a third of what it had been the year before. Things changed for the better in 2004, and non debt creating financing covered nearly half of the current account deficit. Foreign direct investment in Hungary increased in terms of both shares and reinvested earnings, amounting to €2.9 billion. Net Hungarian investments abroad fell to three-tenths of the previous year's level, and net portfolio investments embodying ownership surpassed €0.8 billion.

Net foreign debt increased from €16.2 billion at the end of 2002 to €25.4 billion at the end of 2004, or from 23.5 to 31.7% of GDP. Private sector debt grew faster in 2003, while the aggregate debt of the general government and the National Bank of Hungary in 2004. The latter accounted for

46% of total net foreign debt in 2002 and 2004, but less than 40% in 2003. In the private sector, loans taken up by monetary institutions (commercial banks, specialised and mutual credit institutions, housing savings funds) increased, while those in other sectors (including non-financial companies) decreased to the extent that by the end of December 2004, their credits exceeded their debits.

The economy's **non debt creating financing** includes the stock of direct capital investments and securities embodying ownership of both foreigners in Hungary and of Hungarians abroad. At the end of 2004, the stock of foreign investments in Hungary were worth over €47 billion, and Hungarian investments abroad nearly €4 billion. As a difference between these two the total net non debt creating financing stood at about €44 billion at the end of December.

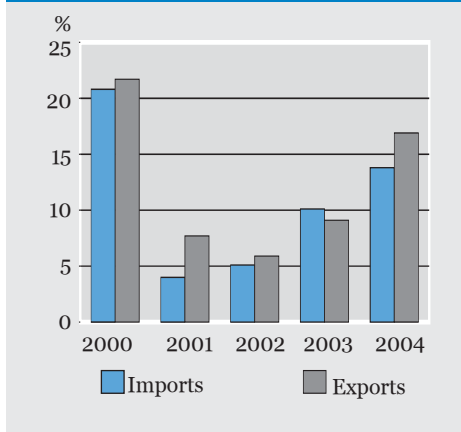
Total foreign liabilities (debt and non debt) at the end of 2004 equalled €104.4 billion, credits representing €35.1 billion and net foreign liabilities €69.3 billion. This was equivalent to 86.2% of GDP, 18 percentage points higher than in 2002.

Foreign Merchandise Trade

The growth in the **volume of foreign merchandise trade**, having slowed down sharply in 2001–2002, accelerated in 2003 and again in 2004. Export volume in 2003 was 9% higher, and import volume 10% higher, than the year before, and 2004 brought further rises of 17 and 14% respectively. Exports' dynamism slightly lagged behind that of imports in 2003, but overtook again in 2004.

The upturn of trade in 2003 was accompanied by deterioration in the **foreign**

Changes in volume of foreign trade merchandise turnover (over the previous year)

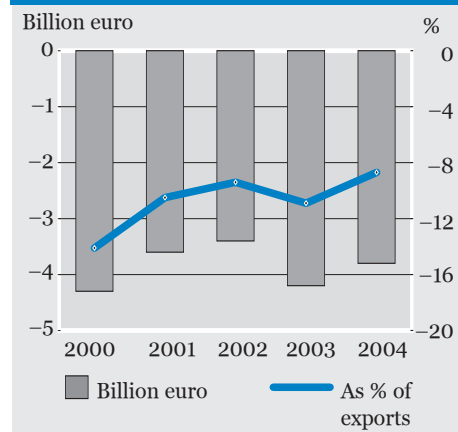


trade balance, deepening the deficit from €3.4 to €4.2 billion. The situation changed in 2004. Although the foreign trade balance deteriorated steeply in the months directly preceding EU-accession, largely through tactical purchases, it improved steadily thereafter, and the year closed with a €3.8 billion deficit. The deficit was equivalent to 8.7% of exports in 2004. This was lower than the 10.9% rate of 2003 and was the lowest relative deficit of the past five years.

An analysis published by the **World Trade Organization (WTO)** in April 2005 shows that the upturn in **world trade** continued in 2004. The volume of merchandise trade, following the rises in the preceding two years of 3.5% and 5.0% respectively, increased by 9.0%. Taking account of the 11% rise in US dollar prices in 2004, the dollar value of trade increased by 21%. Among the largest world trade powers, Japan raised its exports and imports at about this rate, China faster, and the United States more slowly. The cumulate foreign trade of the European Union (EU-25) – also expressed in dollars – rose

at a rate hardly below the world average by 19% in both exports and imports.

The balance of foreign trade merchandise turnover (at current prices)



Eurostat figures show that the enlargement of the EU intensified trade between the old and new member countries. 2004 intra-EU trade was a tenth higher than the equivalent figure for the EU-15. The internal structure of EU foreign trade also changed following the enlargement. A part of the 15 old members' extra-EU trade transferred to the 25-member internal market, and also the trade among the 10 new member states. Intra-EU trade thus gained prominence at the expense of extra-EU trade. In the foreign trade of the 25 member states the value of intra-EU trade was 2.1 times the extra-EU trade for exports and 1.9 times for imports, compared to 2 and 1.8 times respectively for the EU-15.

The extra-EU trade balance shows a €61 billion deficit, €3.5 billion more than in 2003. The deficit of the 15-member states was considerably smaller: €33.4 billion. The higher deficit of the cumulate balance

is the consequence of two effects. Firstly, the surplus registered by the EU-15 with the NMSs does not appear in the EU-25 balance, since it is now intra-EU trade. Secondly, the deficit of the ten new member states with the rest of the world now forms part of the consolidated balance.

79% of **Hungary's** exports were to **European Union countries** in 2004, and 71% of its imports came from there. Exports to the EU expressed in euros increased by 13% and imports from there by 6% compared to the previous year. Trade with the group of countries, which joined the EU in May increased faster than the EU average – exports by nearly a third and imports by a fifth. (Trade with the new EU members makes up 9% of both imports and exports.) Trade in both directions increased particularly steeply with **extra-EU countries**. The value of exports (also expressed in euros) went up by 28% and imports by 36% over the previous year. An outstanding figure is the two-thirds increase in the value of goods imported from Asian countries.

The dominant area for the dynamics of foreign trade in 2003 and 2004 was **machinery and transport equipment**. Products in this category (which includes machine parts and components) accounted for some six tenths of exports and over half of imports over the past few years. The volume of machinery exports increased by 16% in 2003 and 22% in 2004 and imports – largely forming the foundations of exports – by 12 and 20% respectively. Exports were highest in communication equipment, sound recorders and reproducers: € 5.7 billion in 2002, € 6.5 billion in 2003 and € 8.4 billion in 2004. The domi-

nant item in this category was mobile telephones. The highest-value (€ 8.6 billion) import category in 2004 was electrical machinery and optical instruments – much of this due to computer parts. Road transport equipment imports were worth € 4.0 billion, about half of this being passenger cars. For machinery as a whole, exports surpassed imports. The surplus went up from € 1.5 billion in 2003 to € 1.9 billion in 2004, so that machinery trade had an improving influence on the foreign trade balance.

Manufactured goods accounted for three tenths of exports and more than a third of imports. Export volume, following a 2% decrease in 2003, went up by 10% in 2004. Imports increased by 7–8% in both years. This category covers a very wide range. One outstanding subgroup is that of medicinal and pharmaceutical products, where exports were worth € 0.9 billion and imports € 1.2 billion in 2004. The main product group with the highest value of exports was clothing, although exports here followed a downward trend, mainly caused by the decline of contract work transactions. As regards manufactured goods as a whole, imports steadily and substantially represent a higher value than exports. The import surplus of € 4.1 billion in 2003 was approximately repeated in 2004.

Energy imports, forming 7% of foreign trade turnover, increased by 9% in volume terms in 2003, and stayed at roughly the same level in 2004.¹⁴ Their value increased substantially in both years, largely owing to the rising world oil price. It should be noted that world oil prices are mainly quoted in US dollar, which significantly depreciated during the period. This

¹⁴ A large quantity of crude oil imports were carried forward from December to January 2005, and will thus appear in this year's balance.

acted as a brake on prices expressed in euros (and forints), and slowed the increase of import costs. (The value of energy imports rose by 30% in dollar terms in 2003, and 19% in 2004, but only 9 and 8% respectively in euros, and 14 and 7% in forints). Energy exports were just 2% of the total. The import surplus went up from € 2.4 billion in 2002 to € 2.6-2.7 billion in 2003 and 2004.

Raw materials made up 2% of each exports and imports. Export volume grew at the annual rate of 11% in both 2003 and 2004, while imports increased by 7% and then 5%.

The **food, beverages and tobacco** group accounted for 6–7% of exports and 3–4% of imports. Exports in this group, after decreasing in 2002, failed to recover significantly in 2003, the volume increase was under 1%. The small (3%) increase in 2004 was insufficient to reach the export level of 2001. By contrast, imports grew steadily and strongly, by 10% in 2003 and another 24% in 2004. Agricultural imports from the European Union increased in 2004, especially from the countries which acceded in May. Agricultural exports to these countries also increased, but much less than imports. Agricultural trade with extra-EU countries receded. There were increases in the euro value of exports in the main food groups fruit and vegetables and animal feed in both 2003 and 2004. Cereal and cereal product exports, however, despite a revival at the end of 2004, showed a downward trend, and meat and meat

product exports in 2004 were higher than the previous year but still lower than two years before. In the cereals and cereal products, fruit and vegetables, coffee, tea and cocoa, and beverages groups, imports increased both years, and in the meat and meat products group, they increased in 2004. The overall effect in 2004 was to reinforce a several-year trend in agricultural trade: the narrowing of the gap between exports and imports. Although exports are still much higher than imports by value, the advantage diminished from 2-fold in 2002 to 1.9-fold in 2003 and only 1.6-fold in 2004. The surplus decreased from € 1.3 billion in 2002 to € 1.2 billion in 2003 and below € 1 billion in 2004.

General Government and Its Subsystems*

The contribution to **general government** income and expenditure can be divided in the proportions one half to central government and extrabudgetary funds, one quarter to the social security funds and one quarter to local governments. This distribution has remained almost unchanged for several years, discounting extraordinary expenditure.¹⁵ The general government deficit on cash basis¹⁶ was HUF 1.6 trillion in 2002, 10% of GDP, and without extraordinary expenditures it was HUF 1 trillion, or 6.1% of GDP. In 2003, the deficit changed to HUF 1.1 trillion, a smaller proportion of GDP (5.9%), and then increased to HUF 1.3 trillion or 6.4% of GDP in 2004.

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

¹⁵ Extraordinary expenditure totalled HUF 650 billion in 2002 and covered the following items over and above the original budget allocations: government subsidy for repayment of agricultural loans passed by the 2001 Appropriations Act; single, extraordinary items passed by the 2003 Budget Act (purchase of shares in Nemzeti Autópálya Rt. and Állami Autópálya Kezelő Rt., capital expansion to offset losses of Magyar Fejlesztési Bank Rt., etc.) and for expromission and debt relief passed in the amendment to the 2002 Budget Act.

¹⁶ Annual income and expenditure according to the Government Finance Statistics (GFS) system.

About two-thirds of the general government deficit is generated in the central government budget, and one third in the social security funds.

The government sector deficit, according to the EU common accounts system (ESA '95),¹⁷ on accrual basis adjusted by the balance of private pension funds,¹⁸ changed from 8.5% of GDP in 2002 to 6.2% in 2003 and 4.5% in 2004. (This government sector balance calculation complies with the methodological rules underlying the Maastricht criteria, which specify a maximum deficit of 3% of GDP.) The average general government deficit of European Union member countries (EU-25) went up to 2.9% of GDP in 2003 and back down to 2.6% in 2004. (In 2003, the corresponding figures in the United States and Japan were 4.9 and 8.2% respectively.) There were considerable national variations making up the EU average. According to preliminary figures for 2004, the general government balance ranged from a surplus of 2.8% in Denmark to a deficit of 6.1% in Greece. (The latter figure has not been verified by Eurostat.) Of the EU-15 countries, five (in Denmark, Finland, Sweden, Ireland and Belgium) general governments net lending and four net borrowing of more than 3% of GDP – Greece, as already mentioned, Germany (3.7%), France (3.7%) and the United Kingdom (3.2%). Of the new member states, only Estonia had a surplus, and the other nine all had deficits, Malta having the highest (5.2%), followed by Poland (4.8%), Hungary and Cyprus (4.2%).

Hungary's **central government revenue**, on cash basis and at current prices, increased by 13.3% in 2003 and by 8.4% in

2004, a total rise of some 23% in two years. It was equivalent to over a quarter of GDP in 2004, or nearly HUF 5.4 trillion. About half of the revenue – a smaller proportion than in 2003 – originated from consumption-related taxes. In 2003, the upturn in retail trade, the tax harmonization measures (tax rises) implemented for accession to the European Union and purchases made in advance of anticipated changes in regulation caused value added tax revenue to increase by 30% and excises revenue by 11%. In 2004, partly owing to the high base figure and partly to the increased VAT reclaims caused by EU accession, growth was much lower, 2% for VAT and 9% for excise, which was affected by the introduction of vehicle registration tax. A diminishing proportion of revenue (19% in 2004) came from payments of householders, unchanged in absolute terms at HUF 1 trillion since 2002. There was a change, however, in the structure. Personal income tax, making up nine tenths of this tax category, decreased by 4% in two years, as a result of tax cuts, while fees, partly owing to valorisation and partly to progressive fee bands: increased by 46%. An approximately constant proportion of revenue (15%) constituted payments by economic units, but there were substantial changes in the titles under which these were made. Simplified business tax was introduced in 2003 and eco-tax in 2004, while customs and import payments, following accession in May, only comprised repayments from community customs. One seventh of revenue was that of central budgetary institutions and chapter administered allocations, which included EU subsidy payments.

¹⁷ European System of Accounts, 1995.

¹⁸ The central government reimburses the State Pension Fund for payments into the compulsory private pension funds set up as one of the three pillars of the reformed pension system.

Central government expenditure at current prices increased at the almost steady annual rate of 10% over two years,¹⁹ or 21% in total. A diminishing proportion of expenditure – nearly a half in 2004 – was made by central budgetary institutions, a total of HUF 3.1 trillion. The fastest-growing expenditure category – expanding by a factor of two in 2003 and by half in 2004 – was housing grants (HUF 204 billion). The amount of family benefits, income support and income supplement and other benefits paid via social security, from an elevated base in 2003, stayed roughly the same at current prices in 2004. Guarantees and contributions provided to social security funds, after decreasing in 2003, increased by 11% in 2004. Local governments received 21% more central government support in 2003 than the year before, but only a further 3% more in 2004. An approximately constant proportion of central government, one seventh, goes on debt servicing expenditure, which rose by 10% in 2003 and 9% in 2004. By contrast, debt servicing revenue increased by 32% in 2003, but decreased by 12% the next year. The combined effect of these two factors on the net debt servicing burden was a slower growth in 2003 (7%) and a faster growth in 2004 (12%) than that of expenditures. Central government in 2004 was also affected by a HUF 120 billion contribution to the EU and a lump-sum reimbursement of HUF 43 billion related to the accession agreement. (The latter was equivalent to a small fraction of funds received from the EU.)

The central government **deficit** on cash basis decreased from HUF 820 billion in 2002 (without extraordinary expenditure)

to HUF 732 billion in 2003, and then expanded to HUF 889 billion in 2004.

Social security funds returned a deficit in every year. Over four fifth of the deficit was generated in the Health Insurance Fund and the rest in the Pension Insurance Fund. Social security funds revenue at current prices grew by 13%, and their expenditure by 25%, over two years. Total revenue was HUF 2.7 trillion and expenditure HUF 3.2 trillion. Over eight tenths of revenue came from contributions and the rest from central government support. No major changes were experienced under the main expenditure titles, some three fifths going on pensions, about a third on benefits in kind and 6% in cash benefits (sick pay, maternity benefit). Expenditure on pensions increased by 22% in two years. This was surpassed by the increases in medicine expenditure (a benefit in kind) and sick pay expenditure (a cash benefit).

Local **governments'** finances on cash basis were balanced overall. From the exceptional level of HUF 105 billion in 2002, the deficit shrank by two thirds in 2003 and probably by half again in 2004. Local government revenue increased steeply (by 15%) in 2003, strongly affected by the 22% increase in personal income tax assigned to the local governments, the full assignment of vehicle tax, the 21% increase in state contribution and subsidy, and the 23% increase in cash received from the Health Insurance Fund. A major effect on the latter – and on local governments' normative support – was the change in the funding rules to accommodate the 50% increase in public employees' salaries in 2002. In 2004, given the high base, growth was more modest: local governments

¹⁹ For the purposes of comparability, the 2002 base does not include the HUF 650 billion extraordinary expenditures.

received only 6% more support through direct central government grant and assignment of personal income tax than the year before, and they did not substantially increase their own revenues. Up till 2002, there was a gradual shift in local governments' spending from current expenditure to accumulation and development. This turned round in 2003. Current expenditure and benefit payments increased to more than eight tenths of total expenditure, nearly 85% in 2004, causing a relative decrease in accumulation and development expenditure. Local governments' net assets decreased in both 2003 and 2004. A factor in this was that loans increased faster than deposits. Three fifths of local governments' HUF 252 billion bank deposits were held in at-sight and current accounts, and three fifths of their HUF 182 billion credits constituted long term ones.

Extrabudgetary funds showed a surplus at the end of both 2003 (HUF 19 billion) and 2004 (HUF 28 billion). The 2004 surplus comprised surpluses of HUF 17.9 billion in the Central Nuclear Financial Fund and HUF 12.9 billion in the Research and Technological Innovation Fund, and a deficit of HUF 3 billion in the Labour Market Fund.

Central government gross debt increased from HUF 9.2 trillion at the end of 2002 to HUF 11.6 trillion at the end of 2004 at current prices. The rates of increase were 15% in 2003 and 9.5% in 2004. Government securities, having steadily increased their share in recent years, made up 92.1% of the total at the end of 2004. Three quarters of gross debt was in forints and the rest in foreign exchange.

General government gross debt at nominal value on accrual basis rose from 55.5% of GDP at the end of 2002 to 57.6% at the end of 2004, but remained below the maximum of 60% specified in the Maastricht criteria. Average general government debt as a proportion of GDP in the EU-25 exceeds the specified maximum and displays a rising trend, from 61.7% at the end of 2002 to 63.8% at the end of 2004. In the EU-15, the average rose from 62.7 to 64.7% over the same period. There is a very wide scatter, between 4.9% in Estonia to 110% in Greece. In eight of the new member states, general government debt was under 60%, but Cyprus and Malta had figures of over 70%.

Prices

Both industrial domestic sales and consumer prices increased at accelerating rates in 2004. Construction price increase slowed down compared to 2003, but remained somewhat faster than in 2002. Industrial export sales prices, after a slight increase the previous year, actually decreased. Foreign trade prices (also the result of the strong forint) went down by 1–1.5%. In agriculture, good harvests depressed producer prices.

Producer and Investment Prices

A turnaround in trends from the previous year caused the **agricultural producer price** index to fall 5.4% below the 2003 level in 2004. Crop and horticultural product prices were 14% down on the year before, and those of livestock and animal products 4% up.

Prices of crops and horticultural product prices in 2004 were fundamentally determined by the supply market in crops in the second half of the year, when most sales were made. Cereal prices were 21% lower than the year before, and industrial crop prices 2.4% higher. Producer prices of vegetables, owing to lower harvests than the year before, increased by 4% in 2004. Prices of fruit, where production was up on the year before, decreased by 25%.

Live animal producer prices rose 10% above their 2003 levels. After May 2004, the procurement price of pigs for slaughter was determined by supply and demand in the EU as well as at home. In the second half of the year, the demand for pigs and the upturn in export sales raised procurement prices, which over the year as a whole

surpassed the 2003 level by 15%. Cows for slaughter (without veal calves) fetched prices 11% higher, and poultry for slaughter 5% higher, than the year before. There was continued overproduction of animal products during 2004, forcing producer prices 5.3% lower than the previous year. The price of cow's milk fell by 10%, a similar change to the year before.

Agricultural input prices increased by 9.8% in 2004 compared to the previous year. Goods and services currently consumed in agriculture increased by 10.4%, and those contributing to agricultural investment by 6%.

Industrial producer prices, after a fall in 2002, rose by 2.4% in 2003 and 3.5% in 2004, a total of 6% over the two years. The rise stemmed from domestic sales prices, which grew by 5% in 2003 and 8.4% in 2004 over a year. Export prices did not change more than half a per cent in either year: there was a slight rise in 2003 followed by a slight fall in 2004.

Domestic sales prices in 2004 continued to be led by higher-than-average rises (11.8%, similar to 2003) in electricity, gas, steam and water supply, which accounted for 22% of total sales. Price rises in oil refining and in metallurgy attained the strikingly high level of 18% in both cases (and in the former, export prices also increased steeply, by 19.7%). Prices also rose at an above average rate in the manufacture of chemicals and chemical products (9.2%), but below average (6.8%) in food industry, which accounted for nearly 27% of domestic sales.

In the European Union (EU-15), industrial producer prices followed their fall of

0.6% in 2002 with a rise of 0.6% the next year. This movement speeded up in the enlarged EU in 2004, where prices rose 2.3% over the year (2.0% in the EU-15). The price rise on the internal market was of 2.8%, and rather smaller, 1.3%, on external (extra-EU) markets.

Construction prices (calculated on a cost base), following the steep rises of 2000 and 2001 (10–11%), slowed down somewhat, going up by 4.5% in 2002, 5.7% in 2003 and 4.8% in 2004. The slowdown in 2004 was due to smaller annual increases in the earnings index and the producer prices of used materials, both of which are incorporated in the cost base calculation.

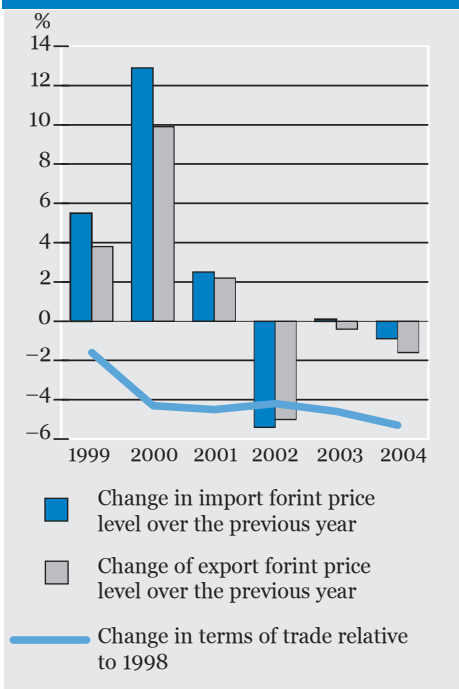
The decrease in price levels of imported machinery was the primary reason for the slower rise in the investment price index from 2002. **Investment prices** rose by 3.6% in 2003 and 2.7% in 2004. The trend in price changes was the same over the two years. The construction investment price index was 104.6% in 2004. Machinery investment prices again remained essentially unchanged, the resultant of prices being 3% lower for imported, and 4.5% higher for domestically-made machinery. Investment prices overall have increased by 15% since 2000, but this covers a 22% increase for construction investments and only 1% for machinery. The latter figure is itself the resultant of opposites: domestic machinery became 14% more expensive and imported machinery 8% cheaper.

Foreign Trade Prices

Foreign trade turnover as a whole was characterised by relatively minor price movements in both 2003 and 2004. The change was more marked in exports, where the **forint price level** went down by 0.4% in

2003 and by a further 1.6% in 2004. In imports, the corresponding changes were a 0.1% rise followed by a 0.9% fall. The two main factors governing the forint price level – the foreign exchange price and the exchange rate – changed only slightly. (Price and exchange rate movements during the year balanced each other out.) Each month up to May 2003, the forint gained on the corresponding month the previous year, and then receded in the months up to May 2004, after which the trend turned back upwards. The forint, in terms of annual average exchange rate against key currencies, weakened by 1% in 2003 and strengthened by 2% in 2004. The foreign exchange price changed only slightly over the same period – 0.5% down in 2003 and 1% up the next year.

Changes in foreign trade prices and terms of trade



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In both years, the average forint price level of foreign trade moved downwards in the largest of the five **main commodity groups**, machinery and transport equipment and upwards, to varying degrees, in the others.

Terms of trade slightly deteriorated, in both years: by 0.5% in 2003 and a further 0.7% in 2004. The 2004 level was 1 percentage point lower than in 2000, when energy price rises caused a 3% deterioration.

The unit value indexes published by Eurostat for European Union (EU-25) foreign trade showed improvements in the first three months of 2004 compared with the same period the year before, and a substantial deterioration thereafter. Over the year, the average deterioration in terms of trade was of 2.6%, but the average level was still 1.5% better than in 2000.

Consumer Prices

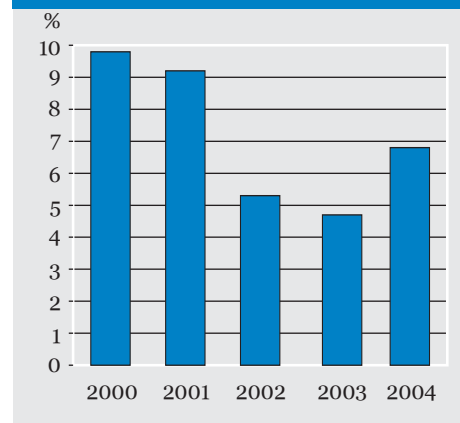
The annual growth rate of consumer prices steadily slowed between 1996 and 2003, to 4.7%. The trend was broken in 2004, when inflation went up to 6.8%. The increase arose from the combined effects of VAT and excise duty changes at the beginning of the year, the other factors adding up to a neutral overall effect on prices. The effect of tax changes on price rises is indicated by the rise of the constant tax rate to 4.8% over the year in 2004.

Price rises accelerated in most main groups of expenditure in 2004, most notably in food, constituting nearly a quarter of the consumer basket, where the rate of increase was 3.8 percentage points higher than in 2003. Pork, poultry meat, bread and sugar prices contributed to this rise to the highest extent, but the prices of house-

hold energy (mainly electricity) and services (water and sewage rates, local public transport) were also significant. 93% of acceleration in annual average prices' rise the rise in inflation occurred in these three main groups of expenditure.

The slightly faster annual rise in prices of alcoholic beverages and tobacco and of clothing, and the slightly slower rise in prices of consumer durables, made a combined contribution to the acceleration of 7%. Prices of other items and fuels, rising at the same rate as the year before, had no effect. Alcoholic beverages experienced the greatest acceleration of price rises in the luxury goods categories, but tobacco retained its lead in terms of the actual rise (19%). Notable changes among other items and fuels between 2003 and 2004 were faster price rises in automotive fuels and slower price rises in newspapers and periodicals.

Consumer prices rises on the previous year



Consumer prices rose at an accelerating rate at the beginning of 2004, reaching a maximum of 7.6% in May. A slowdown

started in the middle of the year and intensified in the fourth quarter. The main reasons were the restraint of food prices by good harvests and strong import competition, the slowdown of household energy price rises due to the base effect, and changes in the forint exchange rate.

Consumer price rise in the **European Union** (EU-25) went up from 1.9% in 2003 to 2.1% in 2004 (according to harmonized data). The average conceals a wide spread among member countries: the smallest rise was in Finland (0.1%) and the largest in Slovakia (7.4%).

The main groups of expenditure experiencing²⁰ the largest price rises were health (6.7%) and alcoholic beverages and tobacco (5.9%), while prices fell in three main groups: telecommunications (1.6%), clothing and footwear (0.3%) and recreation and culture (0.3%).

In **Japan**, prices fell by 0.3% in 2003 and remained level the next year, and in the **US**, inflation increased from 2.2% in 2003 to 2.7% the next year.

²⁰ According to the Classification of Individual Consumption by Purpose (COICOP).

Energy

The established year-to-year pattern of energy use continued in 2003 and 2004: a 2.8% rise in 2003 was followed by a 1.3% fall in 2004. The changes were largely related to weather conditions (cold weather in 2003, milder in 2004). Energy use totalled 1077 petajoules in 2004, 15 petajoules down on the previous year, but up by the same amount on the 2002 level. During the two years under consideration, GDP grew by 7.1% and energy use by 1.5%, so that specific energy use continued to decrease.

The largest import items were crude oil, which grew first by 6.8 and then by 3.9%, and natural gas, which increased by 14.2% in 2003 and then decreased by 7% in 2004. For oil products, by contrast, a major drop in 2003 was followed by a rise in 2004. Net electricity imports, because of a partial closedown of Paks Nuclear Power Station, increased by 63.4% in 2003 and by a further 7.6% in 2004.

Coal extraction, owing to the decrease in 2004, underwent a decline relative to total

Energy use			
Description	2002	2003	2004
Petajoules	1061.8	1091.6	1077.0
Change on previous year, %	-2.3	2.8	-1.3
Productive sectors	Proportion, %	43.9	42.7
	Change, %	-1.1	0.0
Non-productive sectors	Proportion, %	56.1	57.3
	Change, %	-3.3	5.0

Imports constituted an increasing proportion of energy sources: from 61% in 2002 to 64% in 2003 and 65% in 2004. Production of energy sources went down from year to year: by 6.1% in 2003 and 2.6% the next year. Changes differed for each source. Coal extraction increased by 1% in 2003 and down 19% in 2004, and crude oil extraction went up by 2.2% and down 5% in the same years. The situation was reverse for nuclear power generation: after a drop of 21% in 2003, it recovered from this low base by 8.3% in 2004.

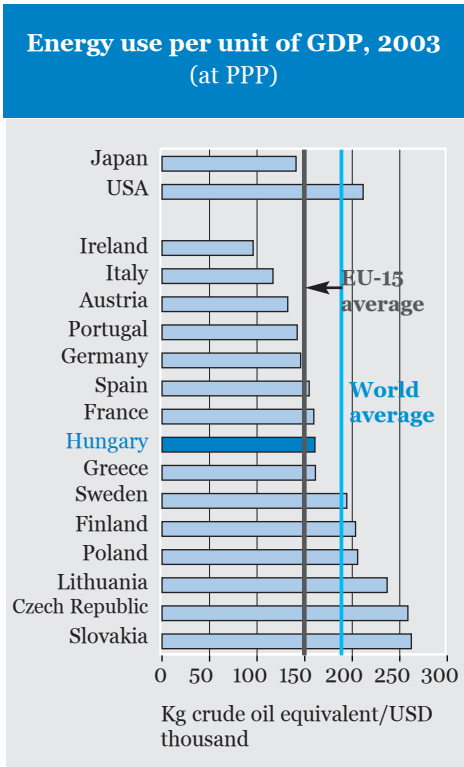
energy source production of 3 percentage points since 2002, to 21.7%. The shares of crude oil and natural gas increased slightly (to 10.4 and 23.2% respectively), and the share of nuclear power decreased (to 30.7%). Imports continued to be dominated by oil and natural gas and oil products (with shares of 49.8 and 40.3% respectively), but coal also took a slightly larger share (6.5%).

Industry's energy use rose by 0.2% in 2003 and 0.6% in 2004, amounting to 372.7 petajoules, 35% of total energy use.

This proportion is in line with past figures. Domestic use, which is of a similar order, increased substantially (by 5.6%) in 2003, and then decreased by 2.9% in 2004. Households used 407.4 petajoules of energy in 2004. Communal and other consumers – accounting for 19% of the total in these two years – substantially raised their energy use (by 3.8%) in 2003 and then lowered it the next year (-0.9%). Energy use in construction, although relatively low, increased by 1.1% in both 2003 and 2004, while that in agriculture and transport decreased in both years.

In 2000, **renewable** energy made up 14.7% of total electrical power consumption in the EU-15 but only 5.4% in the 10 new member states. The figure was 3.6% in the Czech Republic, 1.7% in Poland and 3.2% in Hungary. By 2002, the average proportion in the EU-15 had declined by over 1 percentage point (to 13.5%), while in the 10 NMSs it was up slightly, at 5.6%. The latter stemmed from increases in the Czech Republic, Slovakia, Latvia and Poland. The figure in Hungary was almost unchanged at 3.3%.

Energy use per unit of GDP was somewhat less good in Hungary in 2003 than in the EU-15, but better than the world average.



Output in the Main Sectors of the Economy

Agriculture

The country's total agricultural land area in 2004 was 5,864 thousand hectares, just under a thousand hectares smaller than the year before. 77% of agricultural area was under arable cultivation and 18% grassland. Kitchen gardens, orchards and vineyards constituted 5%. Private farmers retained their dominance of land use, in 2004 cultivating 57.6% of agricultural land, and agricultural enterprises cultivated 37.6%.

The **gross volume of agricultural output** fluctuated over the last four years. A major (16%) rise in 2001 was followed by falls in the next two years, mainly owing to drought. The exceptionally good weather conditions of 2004 caused a 22% increase in agricultural output. Gross output volume was 29–30% higher than in 2000. Last year's increase derived solely from crop production, animal production decreasing further by a considerable amount.

Gross **crop production** was some fifty per cent higher in 2004 than the year before (at 2003 prices). The greatest increase was in cereals (88%). 16.7 million tonnes of cereals were harvested in 2004, worth 46% of total crop value. This was 8 million tonnes (91%) more than the year before. (Hungary had taken in its previous biggest harvest, 15.8 million tonnes, in 1991.) On only 5% more land, 6 million tonnes of wheat were produced, twice the quantity of the previous year. Record production was accompanied by a quality higher than anticipated.

8.3 million tonnes of maize were harvested in 2004, the highest production of recent decades. (Maize harvests approaching 8 million tonnes were recorded in 1982 and 2001.) The 2004 harvest came from 4% larger area and a 77% higher yield was achieved than the year before.

Average cereal yields, from a very low base, increased sharply. Good weather conditions and improving technological level contributed to this. The 5.1 tonnes per

Average yield of major crops				
(kg/ha)				
Crops	Hungary			France
	Previous highest average yield	2003	2004	
Wheat	5 450 (1988)	2 640	5 130	7 580
Maize	6 710 (1991)	3 950	7 000	8 770
Barley	4 690 (1989)	2 380	4 300	6 770
Sugar beet	44 540 (1999)	35 120	50 970	76 610
Potatoes	20 160 (1984)	15 660	24 830	43 130
Sunflower seed	2 190 (1986)	1 900	2 500	2 360

hectare average wheat yield approached the level of the late 1980s, and the 7 tonne maize yield was higher than ever before.

Of the plants of harvest sunflower seeds had a record with 1,2 million tonnes produced in 2004. 32% more potatoes were produced on the same land area, and 73% more sugar beet on an area 17 % larger than in 2003.

In terms of gross production, horticultural products surpassed the 2003 level by 2–3% and fruit (including grapes) by nearly a third. According to preliminary figures, 1.9 million tonnes of vegetables were produced in 2004, 3.3% less than the year before. Fruit production, at 1 million tonnes, was 38% higher than the year before, and the grape harvest, 772 thousand tonnes, a third higher.

There has been a steady decline of **animal husbandry** during the last four years. Uncertainty caused by chronic market problems (overproduction, low procurement prices, late payment, lack of subsidies) had an adverse effect in 2004. High 2003 feed prices impaired the profitability of animal husbandry. Relief for farmers only came in the second half of 2004. Following EU accession, prices started to rise and foreign demand picked up, with a beneficial effect in the pig and cattle sectors. However, stock-breeders had to face a fall in their income owing to the liquidation of subsidies. Gross livestock production in 2004 was only 91% of that in 2003. The most severe contraction of volume was in the pig sector (17%), and cattle production also went down, by about 10%. Poultry production was lower than in 2003, but sheep production, constituting a modest proportion of the whole, was 36% higher.

In December 2004, 723 thousand heads of cattle (including 345 thousand cows)

were being kept in Hungary, 16 thousand (5 thousand) fewer than one year previously. It was agricultural enterprises that reduced their cattle herds furthest, those on private farms remaining roughly constant. As dairy herds were wound up, the number of cows held by these enterprises diminished, and private farms held more cows than in 2003. Demand for cattle for slaughter increased in 2004, but cheap imports caused further difficulties for milk sales. Market difficulties prompted many farmers to give up milk production.

Pig population stood at 4.1 million (including 296 thousand sows) in December 2004. These numbers were substantially lower than the year before (by 17 and 10% respectively). The prices of pigs for slaughter started to fall relative to fodder prices in 2003. Many producers reacted to difficult market and regulatory conditions by reducing their herds or giving up pig farming altogether. In October 2004, the ending of subsidies for farm animals raised tensions in the pig sector.

Following the trend of recent years, sheep stocks expanded in 2004 and stood at 1,397 thousand at the beginning of December, 101 thousand (8%) more than the year before.

Poultry stocks totalled 41 million at the end of 2004, 6 million (13%) less than the year before. The number of domestic fowls decreased by 4.7 million over the year. The changes took place on private farms: it was small farmers who were hardest hit by increasingly stringent conditions for keeping domestic fowls and the strengthening of imports.

Production of livestock for slaughter (1.5 million tonnes) was 4.5% lower in 2004 than the year before. This was mainly due to the 8.5% decrease in the production of

pigs for slaughter, accounting for 48% of the whole output. Production of cattle and poultry for slaughter was more or less unchanged, and that of sheep for slaughter grew by 6%. Among animal products, the production of milk, representing the highest volume (1.9 billion litres) decreased by 4.4%, and that of hen's eggs (3.4 million) by 1% over the year. Raw wool production (4200 tonnes) – owing to the increase in sheep stocks – was 2.4% higher than in 2003. Honey production in 2004 (19 thousand tonnes) was 9.5% lower than the year before.

The **volume of procurement** of agricultural products hardly changed over the last three years. Following a decrease in 2002, sales made a modest recovery in 2003 and remained on the same level in 2004. The volume of crops and horticultural products sold grew by 16% in 2004, and that of livestock and animal products contracted by 10%.

Industry and Construction

After a severe slowdown in 2001–2002, the growth of industry's **gross output** started to accelerate in 2003, increasing in pace especially from the 3rd quarter. Annual volume growth was 6.4% in 2003 and 8.3% in 2004, almost entirely due to the upturn in sales on foreign markets. Domestic sales grew by a mere 1.1% over the whole two-year period, as against export growth of 28% (at rates of nearly 11% in 2003 and 16% in 2004).

The over 15% growth of output volume over the two years was accompanied by a 3% shrink of the industrial workforce, so that productivity – industrial output per

capita – grew faster than the output. Growth in industrial investments, following a slowdown in 2001–2002, took on new strength in 2003, reaching 16% in 2003 and 11% in 2004 (above the national average in both years). Overall growth was thus 29% over the two years, more than twice the average for the economy as a whole. Manufacturing investments grew even faster than this, at nearly 36%, while those in electricity, gas and water supply, after a 11% growth in 2003, shrank by 4% the following year.

In 2004, gross industrial output increased to the greatest extent in manufacture of electrical and optical equipment (24%), but also increased substantially in manufacturing industry not elsewhere classified (14%), manufacture of refined petroleum products (12%), manufacture of transport equipment (8.7%) and metallurgy (7.6%). Output fell by 3.5% in the food industry and grew by 0.3% in the electricity, gas and water supply. The general trend of domestic sales was downward in most sectors, the major exceptions being manufacture of electrical and optical equipment (a 27% increase) and manufacture of refined petroleum products (7.1%). Export sales grew in most sectors, especially in metallurgy²¹ (33%) and electrical and optical equipment (23.5%).

The **structure** of industrial output changed in 2003–2004, with a relative decrease in food and light industry and a relative increase in manufacture of machinery. In 2004, the latter branch accounted for over 45% of output, over 13% of domestic sales and no less than 70% of export sales. The manufacture of chemicals accounted for a more or less constant share

²¹ Iron and steel exports were partly channelled via trading businesses – and so qualified as domestic sales – in 2003, but the concerned metallurgical enterprises were exported directly in 2004.

(14% of output, 16-17% of domestic sales and 12% of exports), while manufacture of food products lost ground – from 15 to 13% of output and from 26 to 23% of domestic sales between 2002 and 2004. The electricity, gas and water supply sector increased its share to 9.8% of output and 22.6% of domestic sales in 2004.

The fastest-growing **regions** in 2004 in terms of industrial output were Northern Hungary (14.9%) and Central Transdanubia (13.1%). Growth over the two-year period was the highest in Central Transdanubia (21%). Output grew by 17% in Western Transdanubia and Northern Hungary, by 10–14% in Central Hungary

Distribution of industrial output and sales, 2004

(%)					
	Staff category (no. of employees)				
	0-4	5-49	50-249	over 250	Total
Output	4.2	8.7	16.4	70.7	100.0
Domestic sales	9.0	15.3	22.2	53.5	100.0
Export sales	0.2	3.3	11.5	84.9	100.0

By **staff categories**, production in 2004 grew the fastest in companies with workforces of 50–249 (medium sized) and with those of over 250 (large) – by 8.8 and 8.5% respectively – but those with workforces of 5–49 were not much far behind (7.6%). The ranking was similar the year before, but then the output growth of small companies was under 1% and that of the other two categories 7–8%. In both 2003 and 2004, medium-sized businesses ranked first in domestic sales, and raised them by 4.7% as against the 1.9% attained by small businesses. Domestic sales by large companies shrank by more than 3%. Export sales by small businesses in 2004, following a decline in the base period, grew by 42%, and growth among the other two categories was 14–15%. Micro-businesses, employing fewer than 5 people, raised their output by 4.8%, their domestic sales by 4.7% and their exports by 7.5% in 2004.

and Southern Transdanubia and by 4–6% in the other two regions, Northern and Southern Great Plain. Industrial output per capita in 2004 was the highest in Central and Western Transdanubia and the lowest in Southern Great Plain, as it had been the year before.

The number of people employed in industry shrank by 3% during the two-year period. In companies with workforces of 5 or more, the decline in the number of **employees** constituting the majority of employed persons, was even greater (4.4%).

Workforces contracted by over 11% in mining and 6.5% in the electricity industry over the two years (in companies employing 5 or more people). The steepest decline (in line with the drop in production) was in manufacture of leather and leather products (40%). Workforces expanded in some industries: to the greatest extent in manu-

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facture of pulp, paper and paper products, publishing and printing (10.5%) and manufacture of transport equipment (7.3%). The number of the employed in manufacture of electrical and optical equipment went down by 2.6% in 2003 and back up by 6.7% in 2004, a growth of 3.9% overall. There was a similar (3.3%) growth of the workforce in metallurgy. In the chemical industry, the number of the employed in manufacture of refined petroleum products, partly owing to dismissals among management, shrank by a total of 27%.

Productivity grew at an increasing rate. The annual growth of industrial output per employed person following 5.3% in 2002, was 8.8% in 2003 and 11.2% in 2004. The two-year growth in companies employing 5 or more people was 21%. The figure was twice this (40–42%) in manufacture of refined petroleum products and manufacture of electrical and optical equipment as a consequence of shrinking workforces in the former case and expanding output in the latter.

The recovery of industrial output in the **European Union** (EU-25) in the fourth quarter of 2003 continued in 2004. Following a hardly-perceptible rise in 2003 (around half a per cent, according to working-day adjusted figures), output volume in 2004 grew by 2.1%. The largest rises were in sectors producing capital goods and the smallest in those producing non-durable consumer goods.

Output growth in 2004 was 3.0% in Germany, 1.7% in France and around 4% in Finland and Sweden. However, the ten new members states also significantly contributed to the upturn, output volume growth without them (in the EU-15) being calculated as 1.7%. In the new member states, industrial output growth was the

fastest in Poland (12.2%) and Lithuania (10.8%).

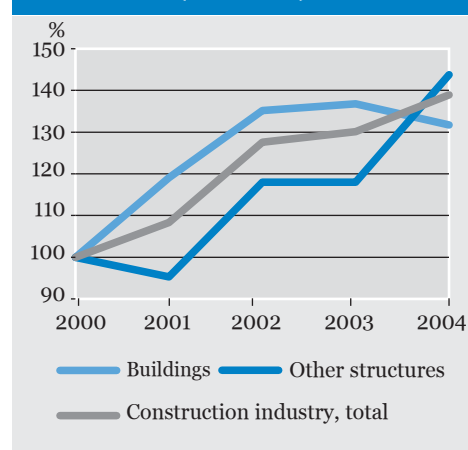
In 2004 the US and Japan achieved an industrial output growth – 4,2% and 5,3% respectively – faster than Europe.

Industry accounted for the same share of value added in the European Union in 2004 as the year before (21.3%).

The average rate of industrial employment in European Union member countries was 19-20% in 2003. The rate was higher in the new member states, and in Hungary it was 26% in 2003 and around 25% in 2004.

After a relatively slow growth in 2003, **construction** took on new momentum in 2004. Output was 6.8% up on the year before and nearly 40% up on 2000. Higher growth among the EU-25 countries during this period was only achieved by the Baltic states. In Germany and Poland, construction output has been falling for several years.

Changes in construction output by main building group
(2000=100)



Preliminary data indicate that the annual growth of value added was 5.2% in con-

struction, 1.2 percentage points above the average for the national economy.

The volume of construction of **buildings** in 2004, constituting 53% of output, was 3.7% short of the previous year's level, while that of other structures went up by 22%. Construction of dwellings – despite the tightening subsidies system – constituted a larger proportion of buildings construction than the year before. Office buildings, although already in oversupply, continued to be built, mainly for rent. Construction of large shopping centres and stores took on new momentum in 2004, with cities outside the capital, as well as the Budapest agglomeration, taking a substantial share.

Motorways and highways accounted for a larger share of construction of **other structures** than in 2003, and work also started in preparation for Budapest's underground line No 4. There was also significant activity in airport reconstruction, railway modernisation and suburban transport, and work continued in refurbishment of waterways and laying of sewers.

A significant **subsector** was building of complete structures and civil engineering, which grew faster than average. This was linked to the 54% growth in output of the large organisations (employing more than 250 people) are determinant its production. Building installation output volume hardly changed, and that of building completion fell by 11% from the high base of 2003.

The volume of construction activity by companies based in the **regions** Northern Hungary, Northern Great Plain and Central Hungary grew at rates of 6–13 percentage points above the average. The engines of growth were motorway building in the northern and Great Plain regions, and

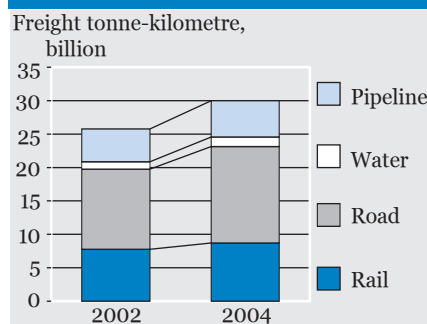
house building in Central Hungary, where 42% of this activity is concentrated.

Construction businesses made nearly fifty per cent more **contracts** during 2004 than in 2003. The volume of house building contracts hardly changed, while contracts for building of other structures nearly doubled. The volume of contracts in progress at the end of December 2004 – HUF 978 billion – was nearly double that of the year before. Contracts for building of other structures made up three quarters of that amount, and the total corresponded to 6.9 months' output.

Transport, Telecommunications and Information Technology

The **volume of freight transported by companies belonging to transport branches** went down slightly in 2004. The average distance lengthened considerably, so that performance in terms of **freight tonne kilometres** also increased, by 12%. Performance of all transport branches was higher in 2004 than the year before. The increase was greater in international than domestic transport.

Performance of main transport branches



The volume of **domestic freight** decreased by 3%, but its performance in freight tonne kilometres increased by 4%. In **international goods transport** – owing to fast-growing exports – the volume increased by 5% and freight tonne kilometres by 16%.

In **transport of goods by road, non-transport** businesses, responsible for 30% of freight tonne kilometres, transported more goods and for longer distances than the year before, but overall, the weight of road freight decreased slightly, while performance in freight tonne kilometres increased by 13%.

In **long-distance passenger transport**, the number of passengers increased by 1% and the number of passenger kilometres by 2%. Output increased only minimally inland, but increased by 10% to international destinations, with decreases in road and rail passenger transport and a substantial increase in air transport. Air passenger transport raised its share of the total over two years by 2 percentage points to 16%, road transport having 45% and rail 39%.

A total of 112 thousand flights arrived at and departed from **Budapest Ferihegy Airport**, causing a remarkable (26%) increase on the previous year. Airport passenger traffic was 6.5 million (of which 3.2 travelled with MALÉV), 29% more than in 2003. Discount airlines carried 982 thousand passengers, an 11-fold increase on the previous year, and took a share of more than 15%.

In **local passenger transport**, there were decreases in both numbers of passengers and passenger kilometres.

On 31 December 2004, there were 2,828 thousand **cars** registered in Hungary. The most common makes of car on the country's roads were Opel, Suzuki, Lada and

Volkswagen. The average age of cars went below 11 years for the first time since 1994 (10.9 years). The number of cars **sold in Hungary for the first time** was 256 thousand, 7% down on the high base level of 2003.

The number of **fixed telephone lines** decreased again in 2004, continuing the trend that started in 2000, and there were 3,575 thousand main lines registered at the end of the year, 38 thousand fewer than one year previously. There were 35 lines per 100 inhabitants, lower than the EU-15 average at the end of 2003 (56), but higher than the average 33 among the countries joined in 2004.

The number of **mobile telephone subscriptions** first surpassed that of fixed telephone lines in 2001, and by the end of 2004, after a smaller (10%) rise than the years before, was ahead by a factor of two and a half, at 8,727 thousand. The proportion of prepaid subscriptions fell during the year from 78 to 73%. The prevalence of mobile telephones in Hungary is high even by international comparison, but the slowing growth rate indicates the approaching of saturation. At the end of 2003, there was an average of 84 mobile subscriptions per 100 inhabitants of the EU-15, an average of 62 in the new member states in 2004, and 78 in Hungary (86 in 2004).

The number and duration of **calls** made from fixed-line telephones in 2004 – measured without Internet calls – shrank even further than the number of lines, by 7 and 6% respectively. By contrast, the number of mobile calls rose by 9% and their duration by 21%, i.e. to similar extents to the previous year, but short of the previous years' rises. 3.043 billion calls were made from fixed-line telephones in 2004, of total duration of 7.2 billion minutes. 5.124 billion

calls were made from mobile phones, of total duration of 7.5 billion minutes, thus surpassing the duration of fixed-line calls (without Internet calls) for the first time.

Expenditure on telecommunications constituted 5.5% of GDP. (The EU-25 average is 2.6%). The cost of telephone calls is also high. The minute charge of a local call is 124%, and that of an interurban call 136% of the EU-25 average. The latter is the most expensive in the EU.

Internet subscriptions, following a lower (18%) rise than in previous years, numbered over 740 thousand at the end of 2004. The combined proportion of broadband xDSL and cable TV connections increased from 30 to 50% over the year, when only 38% of subscribers were using a modem link, against 56% the year before. Owing to the advance of more expensive broadband subscriptions, turnover from Internet services grew by 45% – considerably faster than subscription numbers – to HUF 45 billion.

Although the number of Internet users increased by some fifty per cent in 2003, Internet use is still little widespread in Hungary. According to estimates, 23 out of every 100 of the population regularly used the Internet in 2003 (16 in 2002). The corresponding figures are 39 in the EU-15 and 26 in the ten new member countries. 14% of Hungarian households and 78% of businesses had Internet access in 2004. In public administration institutions this proportion was 83% in 2003. Household and business Internet access in Hungary is among the lowest in the expanded EU (EU-25 averages were 42 and 89% respectively). Hungary occupies a similarly modest position in terms of personal computers per 100 of population. In the same year, 2.8% of Hungary's GDP was spent on informa-

tion technology (computers, software, services), equal to the average in the EU-25.

There were 2826 **post offices** at the end of 2004, 172 in Budapest and 761 in other towns (the latter figure up from 728 in 2003). The number of post offices in villages shrank from 2380 to 1900 in two years, because in September 2003, permanent post offices in villages of fewer than 600 inhabitants began to be replaced by a mobile service. By January 2005, this system covered 946 villages, 404 of which did not previously have a post office. The number of letter post consignments approached 1.3 billion, but the annual increase, in contrast with a few per cent in each of the last few years, was only 0.3%. The transferring and paying out cheques increased by 6.9%, faster than in 2003. Parcel post consignments, after stagnating for some years, contracted by 15% in 2003 and by 25% in 2004, when 7.1 million parcels were sent.

Retail Trade

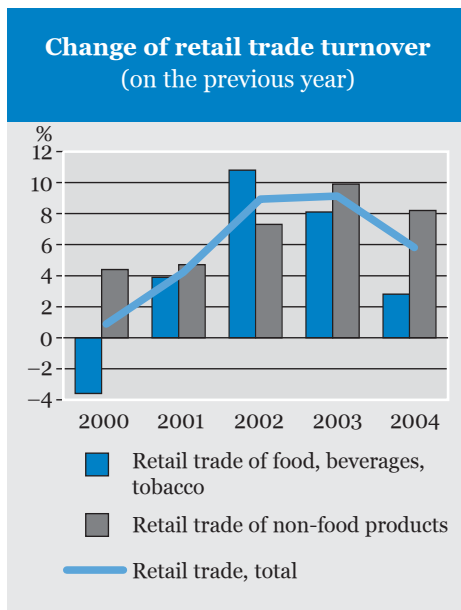
The **number of retail stores** grew at a slowing pace in 2003 and 2004, following a several-year trend. As shops have become more numerous, the structure of their network has changed considerably. The most important structural change is the rise of the new type of large-area store, a process which faltered in 2003 but picked up again in 2004.

Regional trends lasting for several years consolidated in 2003–2004. The major part of the annual increases in shop numbers took place in the Central Hungary region: 80 and 85% respectively. At the end of 2004, the Central Hungary region had 29% of shops (19% in Budapest), the Transdanubian regions and Northern Hungary had 10–11% each, and the Great

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Plain regions 13–15% each. (These proportions roughly correspond to population distribution.) As shops have proliferated in towns, the number in villages has declined, especially in villages of fewer than 2000 inhabitants. 5 small villages lost their last shop in 2003, and another 15 in 2004, bringing the number of villages unserved by shops to 55.

Growth of **retail sales**, having accelerated in 2002–2003, slowed down in 2004. In terms of business volume, the annual rate of growth was 9% in each of the two preceding years, and 5.7% in 2004. However even the 2004 figure was well ahead of the European Union average. Retail trade growth was measured in double digits in the Baltic states, but was negative in Germany and Italy.



The slowdown in 2004 was most marked in **retail sale in shops for food, beverages and tobacco**, particularly in non-specialised stores with food predomi-

nating (hypermarkets, supermarkets and general stores), where business had very substantially increased in 2002–2003, turnover slowed down strongly by 2004. By contrast, specialised food, beverage and tobacco shops broke a two-year downward trend and experienced a recovery of business in 2004. (Trade in specialised stores, however, is only a fraction of that in non-specialised ones.) The volume of business in the two groups of shops combined grew by 10.8% in 2002, 8.1% in 2003 and 2.8% in 2004.

Retail sale of non-food products displayed a steadier growth, at annual rates of 7.3% in 2002, 9.9% in 2003 and 8.2% in 2004. Business was highest in stores selling furniture, household articles and building material. Growth here accelerated in 2003, and the volume of sales in 2004 was one tenth higher than the year before. In stores selling books, newspapers, paper and stationery, growth was high every year, reaching double digits in 2002–2003 and 9.3% in 2004. Pharmaceutical sales increased by 5.4% in 2004, and those of cosmetic and toilet articles, where the total value is much lower, by nearly a quarter. Sales growth in non-specialised stores with manufactured goods predominance slowed down sharply, and was only 2.6% in 2004. An even greater slowdown was in textiles, clothing and footwear stores, where the volume of turnover in 2004 was little more than 1% higher than the year before.

Sales of **motor vehicles, vehicle parts and fuels** – which according to common EU methodology are not included in retail figures – are equivalent to about four tenths of retail business. In sales of motor vehicles and vehicle parts, accelerating growth in the early years of the decade slowed down in 2003. The volume of

turnover, following a 22% increase in 2002, went up by 11% in 2003 and 6.8% in 2004. (Figures for vehicles sold in Hungary for the first time in 2004 show particularly strong growth among motorcycle registrations, while car registrations stayed on the same level as the year before.) Sales in filling stations have been growing much more slowly than those of vehicles and parts for several years. The highest recent sales volume increase was 8% in 2002, and sales remained level in 2003 and increased only modestly, by 3.2%, in 2004.

Tourism and Catering

2001 saw a recession in tourism throughout the world, and the subsequent recovery was very restrained. Tourist arrivals grew by only 1% overall between 2001 and 2003, hampered by such factors as the 11 September 2001 terror attack, the Iraq War and the SARS virus. By contrast, tourist arrivals broke the record in 2004, reaching 760 million, an increase of 69 million or 10% on 2003.

Hotels and similar establishments in the 25 member countries of the **European Union** registered 1.11 billion tourist nights between January and September 2004. This was a 0.6% increase on the same period in 2003. There was a particularly notable increase in the number of tourist nights in Estonia and Poland: 30%. Major decreases were experienced in Slovakia and the United Kingdom: 10% each.

In Hungary, the **capacity of public accommodation establishments** increased by 11% between 2000 and 2003. According to preliminary data for 2004, 80 thousand rooms and 315 thousand beds were available for guests on 31 July, 9% fewer than one year previously. The num-

ber of beds in four- and five-star hotels has grown by 50 % since 2000, but there had been a fall in the number of places in one-star hotels and campsites.

27% of beds in public accommodation establishments are in the Lake Balaton holiday region and 14% in Budapest. Concentration is even higher for hotels, 32% of whose beds are in Budapest and 27% in the Lake Balaton region. Over a third of campsite places are registered in the Lake Balaton region.

In registered **private accommodation** at the end of July, there were nearly 44 thousand facilities offering more than 240 thousand beds. The number of facilities was by 3% down, and the number of beds by 2% down on 2003. Rural room service units [approx. „farmhouses”] increased their capacity by 6%, so that capacity of registered private accommodation establishments divided between private room service [approx. „bed and breakfast”] and rural room service representing 82 and 18 % respectively. Three quarters of beds in private room service were in the Balaton holiday region, but rural room service was more evenly spread. The fastest growth in rural room service was at Lake Tisza and the Mecsek and Villány holiday region. Private room service expanded the fastest in the Sopron-Közszeghegyalja region.

Foreign visitors entered Hungary 36.6 million times in 2004. Two thirds were only in transit or came for shopping or day trips, spending no more than one day in the country. Only about a tenth of visitors spent nights in public accommodation establishments in 2004. Some went to private accommodation – 318 thousand in 2004 – or stayed with friends or relatives or had their own second residence in the

country. After a two-year decline, the number of registered **foreign tourist nights** in public accommodation establishments recovered by 3.5% on 2003, to 10.3 million. However, it was only hotels that experienced an increase, registering 9% more tourist nights.

Three quarters of registered **foreign tourist nights** in public accommodation establishments were paid for by citizens of EU member states. The greatest numbers came once again from Germany, despite an 8% decline in tourist nights, and German visitors accounted for 32% of total tourist nights. From outside Europe, the countries sending the most visitors were the US and Israel, staying for 4.5 and 2.5% of total tourist nights respectively.

The number of **foreign journeys by Hungarian citizens** was 17.6 million in 2004, more than any past year, and 23% more than in 2003. Border traffic more than doubled at the Romanian and Ukrainian sections, and increased by more than 50% at the Slovene and Serb sections, while travel across the Austrian and Slovak borders did not change and that across the Croatian border fell by half. This indicates that many cross-border journeys are made for purposes of shopping rather than recreation.

There were 3.2 million **domestic guests** in public accommodation establishments, and 8.1 million domestic tourist nights. Having risen steadily since 2001, the number of domestic tourist nights fell by 4% in 2004. The most severe fall was experienced in campsites, where it was 17%. The only rise over 2003 was registered in hotels, of 2%.

Looking at **foreign and domestic** tourism together, the number of nights spent in public accommodation establish-

ments, having risen in 2003, stayed at the same level (18.4 million) in 2004. A third of all tourist nights (33%) were registered in Budapest, 22% in the Balaton region, and 5-6% each in the Mátra-Bükk and Sopron-Kőszeghegyalja regions. The number of tourist nights increased substantially (17%) in Budapest, and less so in the Danube Bend (3%) and Sopron-Kőszeghegyalja (2%). In the other tourist areas for which figures were compiled, a decline was detected. The greatest decrease, 22%, was at Lake Tisza.

Foreign guests spent an average of 3.2 days in Hungary, and stayed the longest in campsites (6.3 days) and bungalows (5.3 days). **Domestic guests** stayed for an average of 2.5 days, a figure which, in contrast with foreign guests, did not vary much between types of accommodation.

Over half of the guests (56%) came to public accommodation establishments for recreational **purposes**, a fifth were on business trips, 12% were attending conferences and 6% were using medical or spa tourism services.

The most frequently selected **public accommodation establishments type** was the hotel. Hotels registered 67% of tourist nights and boarding houses 10%; the other types of accommodation shared the remaining quarter. A considerably larger proportion of foreign than domestic tourist nights were registered in hotels (78%, as against 55%). Foreigners also stayed relatively more often in campsites (13%; as against 5% of domestic guests). All other forms of accommodation had higher proportions of domestic than foreign tourist nights.

The **room occupation** rate of hotels was 46.6% in 2004, against 43.7% in 2003. The highest occupation rates were in five

and four-star hotels (60.5 and 58.3% respectively), and the lowest in two-star establishments (28.7%). In Budapest hotels, room occupation was on average nearly 13 percentage points higher than the national average: here even two-star hotels achieved a rate of 47.5%.

The **total income of public accommodation establishments** was HUF 188 billion, 52% in the form of accommodation fees, 27% catering and 21% other income. Accommodation fee income continued its relative decline income from catering and other income gained more importance. At comparable prices, total income, following a three-year decline, recovered in 2004 at the modest rate of 2.5%. Catering income was 5.1% higher, and accommodation fee income 0.5% higher than the year before.

The surplus of tourism-related items in the **current account** was €962 million in 2004, 75% of the 2003 figure. Foreign exchange income, following decreases of 16% in 2002 and 9% in 2003, went down a further 9% in 2004, and foreign exchange expenditure, which increased by 11% in 2002, went up by more modest amounts in 2003 (2%) and 2004 (less than 1%). These figures are given at current prices.

The number of **catering establishments** at the end of 2004 was 500 higher than the previous year, at over 55,600. The increase was greatest in Central Hungary, and there was a decrease in Central Transdanubia. 90% of catering establishments were public catering units, of which 73% were restaurants and 27% bars. The number of workplace catering units, representing 10% of the total, increased faster (+6%) than that of public catering units (+0.5%).

Catering establishments did total turnover of HUF 569 billion, including the catering turnover of public accommodation establishments (HUF 50.4 billion). The turnover of public and workplace catering establishments is divided in roughly equal proportions to their numbers: the former took 88% of the income and the latter 12%. The volume of turnover in public catering, after a dip of 4% in 2003, increased by 1.9%. Workplace income increased by nearly a tenth in both 2002 and 2003, and then by 16% in 2004, so that total catering income was 3.4% higher in 2004 than in 2003.

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