



HUNGARY



2005



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Contents

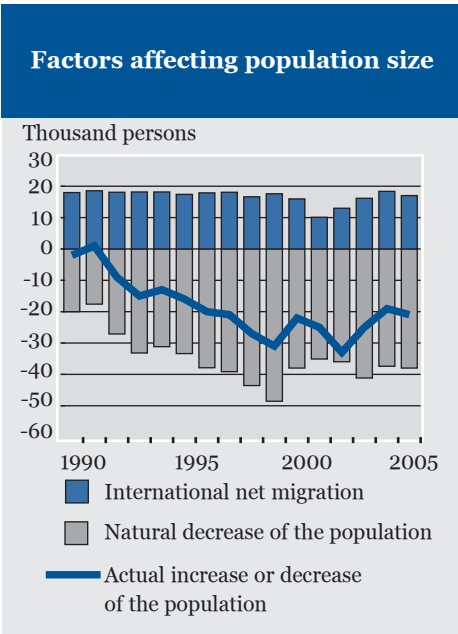
Demography7
Population7
Demographic trends9
Internal and international migration12
Education and science .....	.13
Educational level and provision, training .....	.13
Research and development, innovation .....	.15
Employment, unemployment .....	.19
Income and consumption .....	.23
Earnings .....	.23
Social income ..	.24
Income inequalities, poverty ..	.26
Financial assets of households .....	.27
Consumption .....	.30
Living conditions .....	.33
Housing .....	.33
The environment and its protection .....	.35
Health .....	.38
Social services .....	.41
Books, culture and recreation .....	.43
Legal and public security .....	.44
Parliamentary elections, 2006 .....	.47
Economic development, its attained level .....	.49
International business environment, economic growth .....	.49
The gross national income (GNI) .....	.53
Ownership relations in the economy .....	.54
Structure of the economy by sector .....	.55
Level of the economic development .....	.57
Regional characteristics of the GDP .....	.58
Investment .....	.59
Foreign direct capital .....	.61

Economic equilibrium .....	.65
Balance of payments, foreign debt .....	.65
External trade .....	.67
General government and its subsystems .....	.71
Prices .....	.75
Producer and investment prices .....	.75
External trade prices .....	.76
Consumer prices .....	.77
Energy .....	.79
Performance of major branches .....	.81
Agriculture .....	.81
Industry, construction .....	.83
Transport, telecommunication, informatics .....	.88
Retail trade .....	.91
Tourism, catering .....	.92
List of figures .....	.96
List of tables .....	.98

Demography

Population

The **population of Hungary** was 10 million 77 thousand persons on 1 January 2006. The change of population size has been determined by natural decrease and positive international net migration for a longer period of time. Owing to these, the population number decreased by 21 thousand last year, somewhat more than in the previous year, but less than the average of the preceding five years.



As in the previous year, there were 1,107 females per one thousand males as opposed to 1,081 in 1990. Population density, i.e. the number of inhabitants per square kilometre decreased to 108.3.

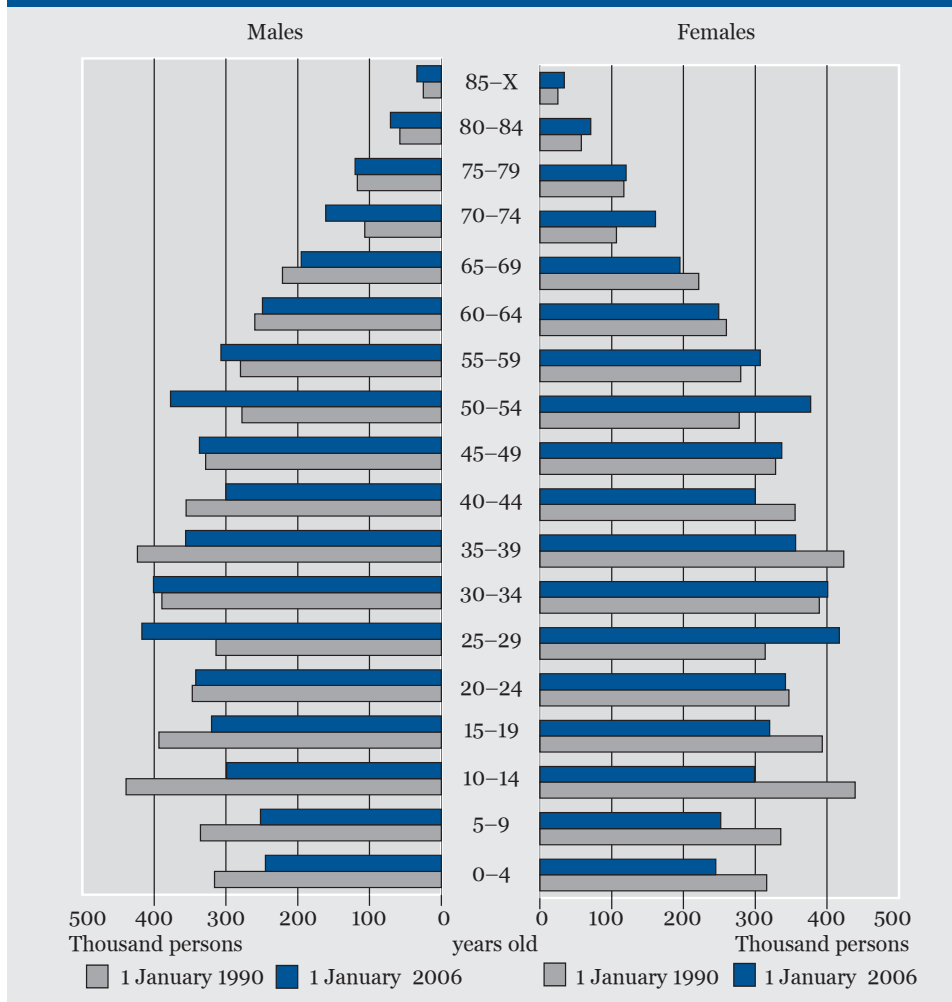
The age pyramid describing the age structure of the population is that of an ageing

population, where the surplus of males until the age of 35 is equalled out among 35–39-year-old population, and turns into an increasing surplus of women over the age of 40, owing to the different living prospects. More than half of females and 45% of males are 40 years old or over. The share of the population aged 65 or over in the total (15.6%) exceeded that of the child population (15.4%) in 2005 for the first time.

Patterns continued to change. The share of married people decreased, while that of the single and the divorced was on the increase. Less than half of the population aged 15 or over live in marriages. Out of the people who are not married, the proportion of single persons is dominant among males, while that of widows and divorced is higher among females.

On 1 April 2005, at the time of the micro-census, the number of households was more than 4 million, 139 thousand more than in 2001. The number of family households lessened, while that of non-family households, and especially one-person households, grew. One in four households were one-person households in 1990, compared to one in three in 2005, which means that one in eight or nine males or females lives alone. The change in the number of one-person households is owing to the increasing number of single old and young people. The number of families declined. Although the large majority of families remain based on marriages, a smaller part of families consist of married couples than earlier, while the share of people living in cohabiting relationships has augmented. At present almost one housing pattern in seven is a cohabiting relationship.

Population by gender and age

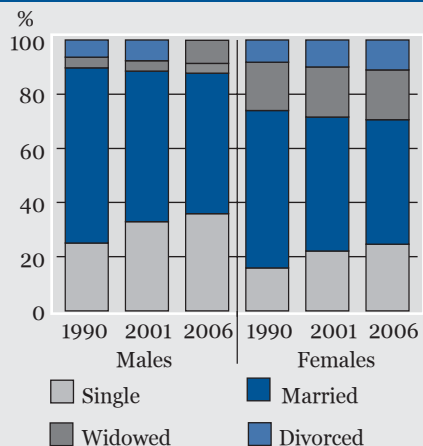


Some 3 million children live in families, 69% of whom are less than 20 years old. There has been a steady fall in the number of children, due to the low number of live births, and this fall has been especially significant among younger ones. Though the proportion of families without children decreased between 1990 and 2001, it has

increased since then, and in 2005 exceeded that prevailing fifteen years before. The share of families having one child or three or more children has steadily risen, while there has been a decline in the proportion of those with two children.

At the beginning of 2005, married couples had 1 million 122 thousand children aged

Distribution of the adult population by marital status



Households, families

Denomination	at the beginning of		
	1990	2001	2005
Number of family households, thousand	2 793	2 739	2 733
Number of non-family households, thousand	1 097	1 124	1 269
of which: one-person households	946	1 014	1 163
Private households, total, thousand	3 890	3 863	4 002
Number of families, thousand	2 896	2 869	2 849
Composition of families, %			
couples	80.1	74.1	71.0
cohabiting relationships	4.3	9.5	12.2
one parent with child	15.5	16.5	16.8
Families by the number of children, %			
without children	34.3	33.9	35.4
with one child	32.9	34.3	34.4
with two children	26.3	24.3	22.6
with three or more children	6.5	7.4	7.6
Children per hundred families	107	108	105

below 15, single parents – where mothers are heads of the families in 87% of the cases – reared 225 thousand, while people living in cohabiting relationships were raising 199 thousand. The number of children aged 15 or less per one hundred families with children lowered from 106 in 1990 to 87 in 2001, and then to 84. This fall has been substantial in the case of single parents and married couples but remained essentially unchanged as for people living in cohabiting relationships.

Demographic trends

The number of **marriages** has been basically decreasing, having not reached the level at the turn of the millennium in any year since then. 44,100 couples got married in 2005, which is 0.7% or 300 more than the year before. The number of first-time marriages has been up again. Marriages of teenagers have nearly come to an end: in this age-group 51 in one thousand single people got married in 1990, 27 in 1995, and 5–6 in 2005. In addition, a significant fall can be observed for young females in their early twenties. Although ten years before marriages were most common at this age, they have shifted to the second half of females' twenties in the past period. A rise in the number of marriages occurred only in higher age-groups, mainly among the 30–39 year-old population.

There was no significant change in the **divorce** rate, the courts dissolved some 24,700 marriages in 2005, about the same number as the year before. Since people get married later in life, divorces implicitly happen at a later age, too. Although divorces remain the most common among 20–29 year-olds, the divorce rate in this age-group has been relaxing slightly in recent years, as against an upward trend among married people over 30. It is unchanged that signifi-

cantly more marriages (76,800) ended owing to widowhood or divorce than the number of new marriages.

The number of **live births** was the highest in the past five years in 2005, when 97,500 children were born – 2,400 more than in 2004, and essentially the same number as at the turn of the millennium. With the exception of two months, the number of live births exceeded that of the corresponding month in the previous year. In the last few years, several factors related to demographic make-up, and resulting from socio-economic transformations played a role in the changing trends. Prolongation of the learning time, people's entering in life later, and changes in attitudes towards housing patterns have had a serious impact on the number of live births. Fertility of teenagers and the formerly most fertile 20–24 year-old females went on decreasing in 2005, while that of 25–29 year olds was up again, and that of females over 30 rose dynamically. A further increase of the number of live births was to females of higher age, higher educational level, and mainly childless, most of whom bearing their first children.

The upward trend in the number of unmarried child-bearing females has continued. 35% of births in 2005 were outside marriage, against 29% in 2000.

The rate of premature births among live births has fallen in the long run, it was 8.2% in 2005.

Fertility rate has improved on the previous year. Assuming that 2005 fertility conditions prevail, 132 children would be born to every hundred females as opposed to 128 in the year before. The value ensuring simple reproduction of the population is 210.

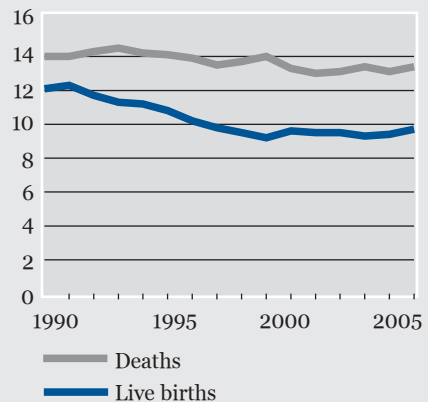
The number of induced **abortions** – although still high in international comparison – has displayed a downward trend over

the past and a half decades. 50,500 operations were carried out in 2005, which was 3.8% or some 2,000 fewer than in 2004. The value is 56% of that at the beginning of the 1990s, and 8,700 less than at the turn of the millennium. There were some 52 induced abortions per hundred live births.

The number of **deaths** was 135,500, almost 3,000 more than in 2004, when the lowest figure had been observed for more than two decades. The basically improving trend of the past few years seems to halt. The abrupt rise in deaths in the months of spring had a key role in the increase, but there were more deaths in three quarters of the year than in the corresponding periods of 2004. Many of the extra deaths happened among the older population, and especially older females, corresponding to their share. However, the increase of the number of deaths among middle-aged (45–49 year-old) males is also noticeable.

Infant mortality has been falling in the long term, it was 6.3 per thousand in 2005, the lowest until now. Though the rate has

Live births and deaths per thousand inhabitants



declined for both sexes, improvement has been more significant for girls. In 2005, somewhat more than 5 of every thousand baby girls and 7 of every thousand baby boys died before the age of one. Among foetal losses the number of abortions and stillbirths has continued to lessen, while there is an upward trend of spontaneous abortions.

Natural decrease of the population, as a balance of births and deaths has already lasted for a quarter of a century, counterbalanced partly for a while by positive international net migration. Therefore the **actual decrease** of the population is lower than the natural one.

The number of deaths exceeded that of births by 38 thousand in 2005, indicating some acceleration over the previous year (1.7%). The positive international net migration of 17 thousand persons has become somewhat lower, covering 45% of the natural decrease of the population.

The demographic situation that has been formed in Hungary over a few decades is similar to demographic phenomena observed in developed European countries in many respects, but a few of its characteristics are naturally closer to Central and Eastern European indicators. Although Hungary's live birth rate approaches the level in member states of the European Union, and is in the middle range in comparison with our environment as well, the death rate is the third highest following Bulgaria and Latvia.

Natural decrease of the population – except for Slovakia – has been general in the environment of Hungary, but has accounted only for a half or less per thousand in Poland, the Czech Republic and Slovenia. Population increase due to international migration was highest in Slovenia, the Czech Republic and Croatia in the region, followed by Hungary, while migration outflows were higher than inflows elsewhere.

Principal demographic figures per thousand inhabitants, 2005

Country	Live births	Deaths	Natural increase (decrease)	Net migration	Actual increase (decrease)
EU-25	10.5	9.7	0.7	3.7	4.4
Czech Republic	10.0	10.5	-0.5	3.5	2.9
Estonia	10.6	13.1	-2.5	-0.3	-2.8
Poland	9.4	9.7	-0.3	-0.3	-0.7
Latvia	9.3	14.2	-4.9	-0.5	-5.4
Lithuania	8.9	12.9	-4.0	-3.0	-7.0
Hungary	9.7	13.4	-3.8	1.7	-2.1
Slovakia	10.0	9.8	0.2	0.8	0.9
Slovenia	8.8	9.2	-0.5	3.6	3.1
Bulgaria	9.0	14.6	-5.6	-1.8	-7.4
Croatia	9.4	11.1	-1.7	2.6	0.9
Romania	10.2	12.3	-2.1	-0.5	-2.5

Internal and international migration

The number of deaths exceeds that of births in all the regions of Hungary. However, natural decrease is significantly modified from region to region by net internal and international migration. After a downturn in the mid-nineties, the number of **internal migrations** has increased slowly but continuously. Following some stagnation, it went somewhat up in 2005: the number of permanent migrations decreased by 1%, while that of temporary migrations rose by nearly 3%. One determinant of internal migration flows of the population in Hungary is the outward migration from Budapest – mostly to settlements of the agglomeration. The other side of the process is the extraordinarily quick increase of the population in Pest county. There are more inhabitants in this county than in any regions of Transdanubia, and its positive net internal migration (14,300 people) is several times the migration loss of Budapest. It is characteristic of the capital city that besides natural decrease – though the pace of which has substantially declined in the last few years – outward migration is significant, too. In 2005, there was a positive internal net migration in Western and Central Transdanubia, and the most attractive counties in these regions were Győr-Moson-Sopron, Komárom-Esztergom and Fejér. The population retaining power of Northern Hungary and Northern Great Plain has weakened further: both had an internal migration loss of 4 thousand people. The counties with the highest internal migration losses were Borsod-Abaúj-Zemplén, Szabolcs-Szatmár-Bereg and Jász-Nagykun-Szolnok.

International migration alters, shades the picture. However, its direction is not as much concentrated as that of the

internal one. Its balance was positive in every region in 2005, and especially outstanding in Central Hungary, where in addition to Budapest the rising positive balance of Pest county was also remarkable. Positive international net migration was higher in this county in 2005 (3,100 persons) than in the three regions of Transdanubia altogether (2,200 people). As a result, the actual increase of the population in Central Hungary was more than 12 thousand people in the last year, against a decrease by 33 thousand people in the rest of the country, where every county lost population with the exception of Győr-Moson-Sopron.

On 1 January 2006, there were some 155,000 **foreign nationals living permanently** in Hungary with residence permits, 9 percent or 12,800 up on the previous year. The overwhelming majority came from Europe – principally Romania, the Ukraine, former Yugoslavian states and Germany. 25–49 year-olds represent the majority of immigrants (58% of males and 53% of females).

14,062 people were granted **Hungarian citizenship** between 2002 and 2004. Formerly, almost two thirds of citizenship applicants were Romanians, while the proportion of Serbian and Ukrainian citizens was 10 % each. The majority of citizenship recipients in the past three years were females (54–56%). More than one third of the new citizens are young, almost half of them are middle-aged (30–59 years old), and the rest are members of older generations. The rate of their residence choice in towns was down, while rose in villages. The region of Central Hungary attracts the most of them, while Southern Transdanubia and Northern Hungary the least.

Education and science

Educational level and provision, training

In 2005, 83% of young people in Hungary – between 20 and 24 – had at least secondary qualifications. The same rate was 76% among people aged 25–64. 15% of the latter have higher educational qualifications.

In spite of the improvement, the rate of adults (between 25 and 64 years old) in Hungary who completed only the 8 grades of primary education remains high at 24%. It is unchanged that 5-6 thousand young people per year do not complete primary school until their age of 16, which is already 5% of this age-group shrinking continuously. Prospects of finding a job is the worst among these young people, their majority cannot enter the labour market in the long run.

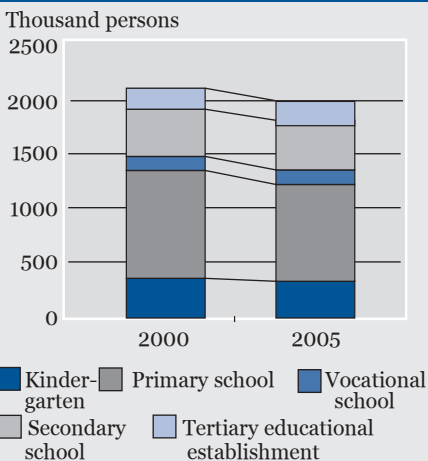
The most evident use of educational attainment and skills is finding one's place on the labour market, good employment position and earnings. In general, parallelly with an increasing level of educational attainment the participation in the labour market also rises, and the lack of skills can naturally lead to exclusion from the labour market and through that to social exclusion in a wider sense.

In school-year 2005/2006, 1 million 990 thousand children and young people attend kindergarten and full-time school education in Hungary, 87% of the 3–22 year-old population concerned. It is nearly 300 thousand less in absolute terms than in school-year 1999/2000, while 10 percentage points higher in relative terms.

The number of students is different by level of education and school type. It is the first time since 1995 that there has been a slight increase in enrolment to kindergartens - resulting from the increase of the 3–5 year-old age-group. In this school-year 327 thousand children attend kindergartens, some 600 more than in 2004/2005. This year more than 5,300 disabled children attend kindergartens, and 73% of them in integrated forms in accordance with priorities of the educational policy.

As a consequence of demographic trends, there was a considerable fall in the number of students in **primary schools**: 859 thousand are in full-time education, 28 thousand fewer than one year before. This figure included 61 thousand disabled children who attend special primary schools or classes, or integrated education. 41% of students attended afternoon-school, which was up on previous year similarly to the rate of those who took school meals (64%). In 2005, almost 120 thousand students

Number of pupils and students in full-time school-system education



completed the eighth grade, i.e. graduated from primary schools, and nearly all of them continued their studies at secondary school.

The number of students in full-time **secondary education** slightly rose again: 572 thousand students enrolled for school year 2005/2006. 23% of those enrolled are studying in vocational schools not leading to a school leaving certificate, 43% in vocational secondary schools and 34% in grammar schools.

In school year 2005/2006, the number of students in the vocational training grades of schools providing vocational training (vocational schools and vocational secondary schools) in full-time form is 130 thousand, somewhat lower than one year before.

The number of secondary school students who graduated from full-time education with a school-leaving certificate in 2005 reached 77 thousand, around half of which was represented by grammar school students and the other half by vocational secondary school students. The same year 26 thousand students passed school-leaving examinations in vocational schools and 27 thousand did so in vocational secondary schools.

In 2005, 58% – or 53 thousand – of applicants were admitted to **tertiary education**. Economics, law and psychology courses remain the most commonly chosen in first place in university education, while tourism and hotel, business and communication courses were the most popular at colleges. As in previous years, there was above-average over-application for police, military, arts, physical education and law subjects.

In academic year 2005/2006, 231 thousand young people matriculated in full-time tertiary education at various levels. This number comprises 11 thousand in BSc training, 207 thousand in first-degree university and college courses, furthermore, 8,300 in higher-education

vocational training, and another 5,900 in vocational postgraduate, PhD and DLA qualifications.

In comparison with primary and secondary education, which are largely compulsory and free services, tertiary education necessitates funds investment by students as well: the proportions in self-financing form of training are steadily increasing. Whilst the state finances the courses for 80% (a lower and lower percentage) of full-time tertiary education students, distance learning students are all studying at their own expense.

There are 165 thousand full-time school **teachers** employed in public education in the school year examined, which is half percent down on the previous year. Of the 23 thousand teachers in tertiary education, 16,700 are employed full time, 2 thousand part time and 4 thousand on contracts.

Nearly all young people have been involved in education, thus the role of **evening and correspondence courses** in primary education has been shrinking gradually, while it has shifted towards supplementary education in secondary schools. In this school-year, 2,500 persons are studying in primary, and 94 thousand in secondary adult education, which is slightly fewer than in the previous school year. 12 thousand people passed the secondary school-leaving examination in the frame of adult education in 2005.

Evening, correspondence and distance learning courses have been especially widespread in tertiary education: the number of students was 193 thousand in 2005/2006 (2% fewer than the school-year before).

Concerning the proportion of adult population in education, there are very substantial disparities within the European Union, too. Standard education module data of the European Labour Force Survey conducted in 2005 show that the share of the 25–64 year-

old males and females living in the European Union who were involved in some kind of training was 10 percent and some 12 percent, respectively, in the four weeks preceding the survey. This rate was especially high in Scandinavian countries and the United Kingdom: 25–35% of those belonging to the age-group examined were studying in the reference period. Propensities to participate in education were much lower than this in new member states, and what is more, lower than the EU-average: 6% of females and some 5% of males participated in some type of training. The picture is even less favourable in Hungary: in the month preceding the survey in 2005, only 3.5 % of males and 4.8 % of females took part in some kind of training either in or outside the school-system.

Besides education policy concepts, the state of the economy, the number of young people, and the level of education are major determinants of **expenditure on education**. Lifelong learning and wide-based education, spreading as requirements of knowledge-based economy, necessitate substantial amount of funds. Government expenditure on education in 2004, including accumulation expenditure, was over HUF 1,089 billion, 16% more at current prices than the year before. 74% of this was spent on public education (kindergarten, primary and secondary education), 20% on tertiary education, and 6% on adult education and other activities completing education.

Research and development, innovation

In 2004, the growth of research and development (R&D) activity seen in past years slowed down. The number of research and development units was 3% more than one year before. Research activity was pursued

by 49,615 people, 2% more than in 2003. Expenditure on R&D activities totalled HUF 181.5 billion in 2004, equivalent to a 3.3% rise at current prices over the previous year. Owing to a slowing development, expenditure in proportion to GDP fell from 0.95 % to 0.89 %. This proportion also declined in EU member states, but to a smaller extent, from 1.93% to 1.90%. Thus the gap has increased somewhat in this comparison. To have a full view of the picture, the rate of the EU is lower than that observed in the USA or Japan.

The number of scientists compared to the total staff size was essentially unchanged in 2004 over the previous year, while there were 2% more assistants on the average, and significantly (by 6%) more other manual and non-manual workers. Converted into full-time equivalents, however, the R&D staff number contracted by over 2%: though there was a 3% rise in R&D units of higher education, a nearly 7% fall was observed in R&D units of enterprises and a decline of somewhat more than 3% was indicated in the government sector.

The structure of expenditure by sectors has changed on the previous year. The weight of the government sector lessened because enterprises spent almost 16% more on research, while R&D units of the government sector spent 3% less, and tertiary education spent 5% less in 2004. The proportion of current expenditure within expenditure went up from 83% to 85% to the detriment of capital expenditure, which is the consequence of the substantial decrease of capital expenditure in the government sector and in tertiary education. This could not be counterbalanced by enterprises.

Government budget accounted for 52% of funding for R&D, and thus continued to play a dominant role, though this figure is

Comprehensive data of research and development

Year	Number of R&D units	Actual staff number of scientists and engineers	Full-time equivalent number of scientists and engineers ^{a)}	Total expenditures of research and experimental development (billion HUF) ^{b)}	R&D expenditures as a percentage of gross domestic product
2001	2,337	45,676	22,942	140.6	0.94
2002	2,426	48,727	23,703	171.5	1.01
2003	2,470	48,681	23,311	175.8	0.95
2004	2,541	49,615	22,826	181.5	0.89

a) Full-time equivalent.

b) Including central government funds used outside the research and development units observed, and the honorarium, salary complements of scientific degree as well as the amounts of state scientific scholarship from central government funds; excluding expenditure on related activities.

lower than in the previous year. The share of enterprises in funding – as a result of their above-average rate of increase – was 37%, against 31% in 2003. The proportion of R&D expenditure originating from abroad and other Hungarian sources have been steady for years, they accounted for around 10 and 1 per cent, respectively. In EU member states, the share of enterprises in funding was over 20 percentage points higher on the average than that of the government sector.

There were 22,600 research and development projects being pursued in 2004, some 6% more than in 2003, which comprised a significant, 21% rise of the number of projects elaborated in the frame of international cooperation. The number of publications in connection with research and development activities has been up. More books, and parts of books have been pre-

pared, and although the number of articles has lessened somewhat, there has been a considerable rise in the number of works published on CD-ROMs and conference publications, having a higher and higher importance. A decline in the number of patent applications has continued – at a higher pace, than formerly. Whilst in 2003 there was a nearly 20% fall on the year before, it was some 45% in 2004¹.

The uneven regional distribution of research and development activity has been unaltered, since the majority was concentrated in the region of Central Hungary and especially in the capital city in 2004, too. 44% of R&D units, and within that, 58% of the government sector's R&D units were operating in Budapest, and 63% of the expenditure was used there. As in 2003, Northern Hungary was ranked the last among regions.

¹ There are first of all technical reasons for this fall. Hungary's joining the European Patent Convention on 1 January 2003 enabled foreign patent applicants to apply for the grant of a Hungarian patent by indicating Hungary in their European application.

**Regional distribution of the main research
and development indicators**

(%)				
Region	Number of R&D units	Total staff	Of which scientists and engineers	Expenditures ^{a)}
		full-time equivalent number		
Central Hungary	49.4	64.6	65.7	67.5
Central Transdanubia	6.2	5.3	5.3	6.3
Western Transdanubia	7.7	3.9	4.0	4.8
Southern Transdanubia	8.9	5.4	4.9	3.3
Northern Hungary	5.7	4.7	4.3	2.7
Northern Great Plain	11.0	7.7	7.8	8.5
Southern Great Plain	11.1	8.4	8.0	6.9

a) Excluding expenditures on other activities (services, production etc.) related to research and development.

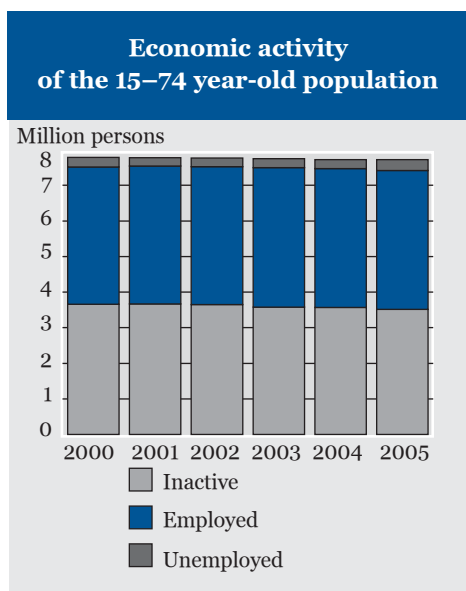
Employment, unemployment

The number of **employed persons** – according to labour force survey data – was 3 million 902 thousand, and the number of **unemployed persons** was 304 thousand in 2005. Employment has grown by 45 thousand persons or 1.2% since the turn of the millennium. The number of employed persons peaked in 2003, then slightly decreased in 2004, and remained essentially unchanged in the last year. The some 4% annual average growth of GDP has been paralleled by a practically steady employment. After unemployment reached its lowest ebb in 2001 within the period, it has had a continuous upward trend – owing to the abolishment of the mandatory military and civilian service, the lower chance for leaving work because of pension system changes, and labour benefits system changes in 2005. Labour market structure hardly changed.

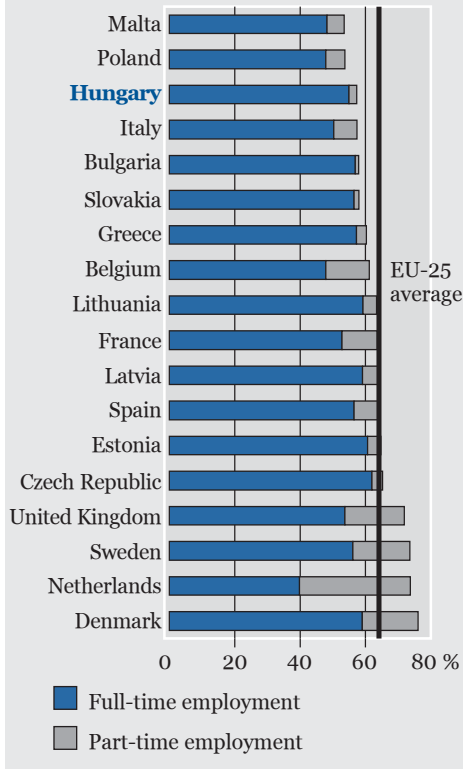
In accordance with the trends, **economically inactive population** was down to 3 million 517 thousand people in 2005, 143 thousand fewer than five years before, and 51 thousand fewer than in the preceding year. 55% of the economically inactive people are pensioners, 21% pursue studies in full-time education, 17% are other dependants and 7% receive child-care benefits. The decisive proportion of this population group (89%) does not wish or is not able to work.

Employment rate among the 15–64 year-olds rose from 56% in 2000 to 56.9%. The level of employment in Hungary is similar to that in Slovakia and Italy, exceeds the rate of Poland and Malta, but remains below the EU average (63.6%). The trend of the employment rate in Hungary is owing to the early retirement of a large part of the workforce at the beginning of the nineties, the prolongation of the learning time, and the reception of many different kinds of child-care benefits. In some old member states of the European Union where atypical forms of employment like part-time employment, distance working, etc. are far more common than in Hungary, the employment rate reaches up to 70–75%. Part-time employment is most widespread in the Netherlands (46%), but is high in the United Kingdom, Sweden, Germany, Denmark, Belgium, and Austria as well. This indicator was 4.1% in Hungary in 2005, which is one quarter of the average for the European Union, and is similar to the Czech or the Greek rate.

The distribution of employment by gender has essentially been steady: out of 100 employed persons 54 are males and 46 are



Employment rate of the 15–64 year-old population in Q3 2005



females. Their age composition followed the trends of recent years in 2005, too. The number of young people aged 15–24 was 9.3% fewer, while their rate fell by 1.8 percentage points to 21.8%. Young people are absent from the labour market partly because of the longer time spent in education and partly owing to the increasing scarcity of jobs for school leavers. However, the labour market position of the 30–34 year-olds, and those aged 50 and over improved on the previous year. Employment rate among 55–64 year-old people of the older generation rose to 33% from

31% in the previous year, which was prompted by the gradual rise in the retirement age (in 2005, males were of working age up to 61, and females up to 59) and the change in the retirement rules. The number of people employed in this age-group has increased by 35% or 102 thousand over the last three years.

The number and proportion of people employed in agriculture continued to decline in 2005 as well. There has been a loss in the number of persons employed in manufacturing (25 thousand), most of which in the textiles, and textile products manufacturing sector (18.7 thousand). In manufacturing, it is solely machinery and equipment manufacturing enterprises that has increased employment. A smaller decline has been characteristic of the transport and storage sector. Employment has expanded considerably in trade, while there has been a more modest growth in construction (where employment was significantly extended in the previous years), as well as in the hotels and other community, social and personal services branches.

The overwhelming majority (86%) of employed people were employees. The relative numbers of people working at sole proprietors and companies and partnerships have been stabilised at around 13% in the past few years. The numbers of cooperative members and unpaid family workers have dwindled year by year, their rates have become negligible.

The **unemployment rate** rose to 7.2% in 2005 from 6.1% one year before. Its level was similar to that in 1999. The indicator is lower than the 8.7% average for the European Union.

While in former years the female unemployment rate had remained below the rate for males, it was equal to that in 2004, and

exceeded that in 2005. The female unemployment has gone up at a higher pace (from 6.1% to 7.5%) than the male (from 6.1% to 7.0%) from the year before, and the biggest rises were in the 20-29 and 35-39 age-groups among them.

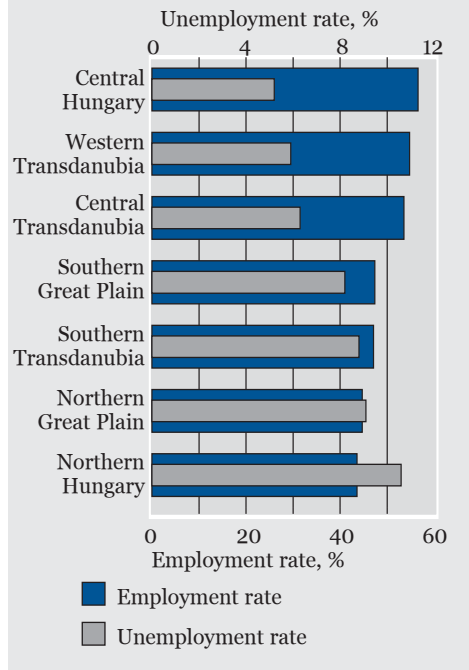
Youth unemployment (15–24 year-olds) increased from 15.5% in 2004 to 19.4% in 2005, which is higher than the average of the European Union member states (18.5% in 2005), and is equal to the level of Luxembourg, the Czech Republic and Spain. Almost one in two of them are not qualified, which is detrimental to their chances of finding a job, and the lack of work experience is an obstacle, too, in many cases. The unemployment rate among young graduates in the age-group was identical to that in the previous year (6.8%).

The rate of long-term unemployed, i.e. the people without work for a year or longer was 46% compared to 45% the previous year.

Unemployment touched some 8% of households in 2005, or one in 11 families, and one in seven of large families – those with 4 or more members.

Regional disparities deepened further in 2005. Employment rate was the highest in Central Hungary (56.6%), up on 2004 as well. The situation has been the least favourable conventionally in Northern Hungary, where this rate has even decreased slightly (43.6%).

Employment and unemployment rate by regions, 2005



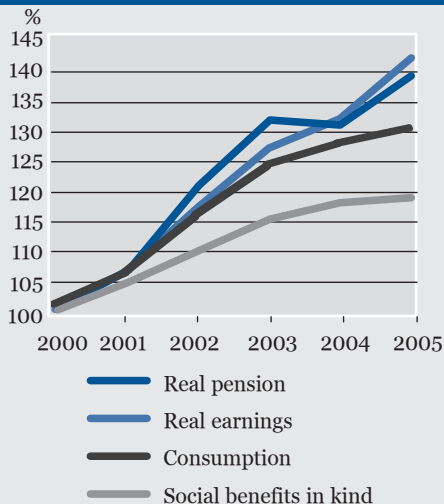
Unemployment rose in each region over the previous year. The rate was the highest in Northern Hungary (10.6%), and lowest in Central Hungary (5.2%). The increase was most considerable in Northern and Southern Great Plain (1.9 percentage points).

Income and consumption

Due to economic recovery and rising employment, living standards have been rising again since the last third of the

Consumption has followed the trends of the main components of income, but its growth has been slower than that of earnings and pensions.

Changes in the main components of income and in household consumption (2000=100)



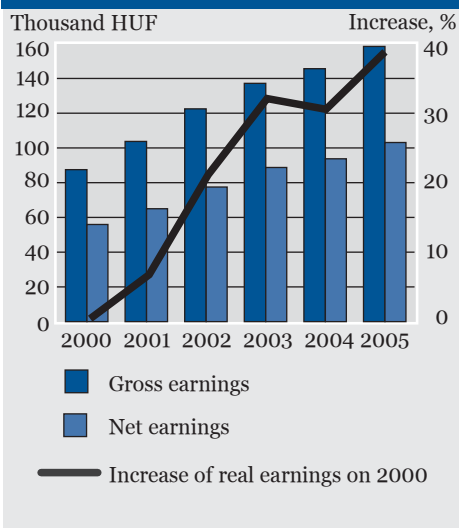
nineties. An increasing part of income derives from work – wages, the profit of entrepreneurs and small producers' sales of goods, and pensions of older people are based on former years' work. Real earnings and real pensions have grown by some 40% since 2000, and at a higher rate than formerly, by 31 and 34%, respectively, between 2002 and 2005. Their growth was the fastest in 2002 – at the time of the central salary rise for public employees and additional correction of pensions.

The state supports child care, unemployed persons and people in need through the budget or the social security.

Earnings

Government measures in the past five 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 – have significantly influenced, speeded up earnings outflow, which has substantially exceeded GDP growth. In 2004, the increase was slower than formerly, restrained by the postponement of the "13th month" salary payment to January

Earnings



2005. This administrative change was one of the reasons for a rise again in 2005.

The average **gross nominal earnings** of people in full-time employment stood at HUF 158,300 per month in 2005. Manual workers earned HUF 102,700 and white-collar workers earned HUF 222,800. On the whole, nominal earnings grew by 8.8% over 2004, by 6.9% for manual workers and by 9.6% for white-collar workers. Private sector workers received average pay rises of 6.9%, against 12.8% for public sector workers, as an effect of abovementioned measures. Average earnings of white-collar workers have remained lower in public sector institutions than in the private sector. Their lag behind in terms of earnings was of 8% in 2003, and 13% in 2005.

Earnings differences between the **branches** have not changed essentially. Like before, outstanding earnings in 2005 were those of financial services workers, 2.2 times the national average, followed by the chemical industry and electricity. The lowest average earnings in manufacturing last year were in textiles, textile products, leather products and footwear and in manufacturing not elsewhere classified, where wages hardly reached 60% of the national average. The situation of persons employed in hotels and restaurants, agriculture and construction was somewhat more favourable: they earned 60–70% of the national average. The average gross earnings of textile industry workers were 24% of those employed in the financial services.

Average monthly net earnings stood at HUF 103,100 in 2005, 10.1% up on the previous year. Net earnings were 65% of gross earnings. The more than one percentage point higher value of net earnings over the year before was basically prompted by changes of income tax rules.

Net earnings rose at a higher rate than the previous year in each region. The increase was above the average in Southern Transdanubia, Northern Hungary and Northern Great Plain. Central Hungary continued to have the highest level of net earnings, 15% above the national average. Workers in Southern Great Plain earned the least, 86% of the national average. Net earnings in Northern Great Plain are hardly over that. The advantage of the highest-earning region over the lowest one slightly decreased (to 34%).

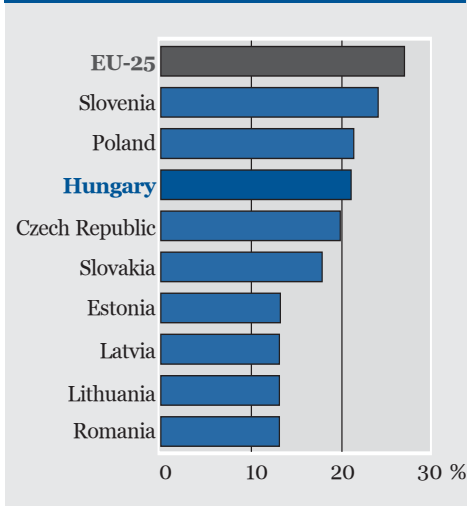
The **real value of earnings** grew by some 40% between 2000 and 2005, of which the 2005 rise alone was 6.3%. The increase has not been steady at all, and its rate slowed down after 2002 and 2003, but has been above the GDP growth rate each year except for 2004.

Social income

EU member states spent an average of 27% of gross domestic product on social solidarity, **social protection** in 2003. Although the reform of social systems was put on the agenda in Europe in the nineties, the indicator has shown a rise again since 2001, and this rate is over 30% in Sweden, equal to that in Denmark, and is over the average in Germany and France, too. The proportion of welfare expenditure in new member states is lower than the EU average, best approached by the Slovenian rate, ahead of the Polish and the Hungarian ones, respectively.

The biggest component of expenditure is **pensions** in all member states, ensuring the living of the old generation based on their former earnings. European Union countries spend an average of some 13% of GDP on pensions. This rate is between 9

Share of social incomes in GDP, 2003



and 10% in Hungary². Over 30% of the population, some 3 million people received pensions or pension-like benefits in 2005. The number of recipients of pensions or pension-like benefits has fallen since 1999, and went on declining in 2005, too, despite an increase by 4.6% in the number of new pension awards during the year. The rise has been observed in the case of old-age pensions (17%), while there have been fewer new disability and accident disability pension awards (7%).

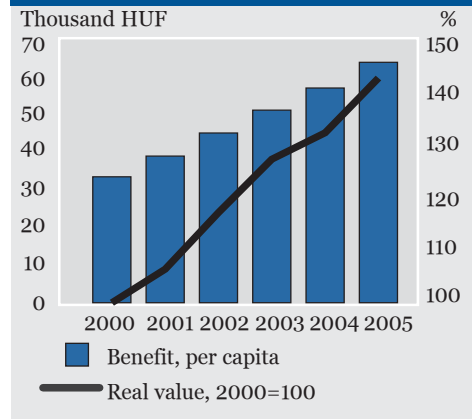
54.3% of pensions were old-age pensions (1 million 658 thousand people), and other substantial proportions were pensions, benefits or supplements awarded on disability, changed working ability, handicap or other reasons.

At present, some 30% of the population depend for their regular living on pensions or pension-like benefits. In 2005, HUF 2,295 billion were paid on pensions from social security and non-social security

funds. The average monthly payment per pensioner was nearly HUF 63 thousand, an increase of 7.8% over the year before in real terms as calculated using the consumer price index for pensioners. The level of pensions and pension-like benefits reached that of 1990 in 2003 – the year when the "13th month" pension was introduced³ – for the first time, and was 5% above the 1990 level in 2004. The difference between earnings and pensions has been shrinking: the proportion of pension provision to net earnings has grown from 57% in 2002 to 61%.

The state spent some 1.5–2% of GDP on **family support** and child care in the form of cash benefits in 2005.

Amount and real value of pensions and pension-like benefits



In the course of 2005, family allowance was received by 1 million 265 thousand families for 2 million 61 thousand children, the amount of which has grown by 20% since 2001 after a decline in real terms by nearly 20% in the preceding four years. The scope of recipients has widened. Child care allowance (gyes) was claimed by 161 thou-

² In accordance with Eurostat methodology.

³ Furthermore, it was then that nearly 10% of own right pensions were completed to the level of the minimum pension.

sand families, and child care fee (gyed) was received by 87 thousand. 6.6% of females in child-bearing age care for their children in the former form, and 3.6% of them in the latter.

Monthly average child care benefits per capita

Year	HUF	Real value, previous year=100
Family allowance per family		
2004	11,971	99.3
2005	12,597	101.5
Child care allowance, per capita		
2004	24,428	103.3
2005	26,051	102.9
Child care fee, per capita		
2004	54,322	104.3
2005	58,484	104.0

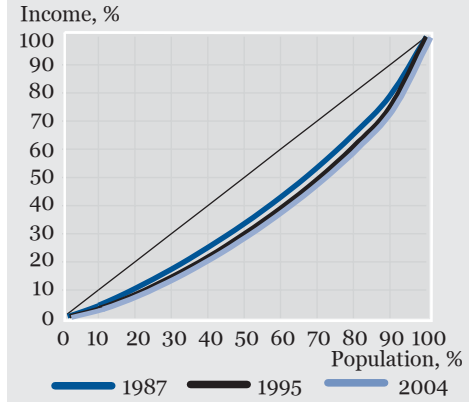
Income inequalities, poverty

Income disparities have essentially been unchanged in the last ten years despite a general rise of income. The level of net per capita income⁴ of the population was 40% higher than nine years before (in 1995, it was 12–13% less than in 1987). Income of the highest population decile is 7.5 times that of the lowest population decile. Like in 1995, the lowest income decile of the population has 3.3% of the net income, while the highest income decile possesses almost a quarter of that.

The social stratum with stronger labour market positions, being highly qualified or having a higher support of parents has had an income advantage in this nearly one decade. Primarily those people are lagging behind whose level of educational attainment is lower, and who

⁴ Not including social income in kind.

Concentration of net personal income per capita



live together with many dependents even though pursuing a job.

Incomes of employees have approached to that of entrepreneurs. Income of people living with household heads receiving unemployment or child care benefit has increased at a considerably lower rate than the average, equal to the half and 40% of the average, respectively.

Social income accounted for 16.3% of the total income of households with children. There are no active earners in 12% of households having children. In these, social income represents the decisive part of total income, and their average annual income is not more than 43% of the national average. Over 80% of households with inactive household heads receiving unemployment or child care benefit belonged to the first or second income decile, while some 15% of households with pensioner household heads did so. The relatively favourable income position of pensioners is ensured by stable benefits and savings from their active age. In these households, it is typically the death of the husband or the wife that

causes a fall in the standard of living, since the unchanged overheads are not compensated for by supplementary provisions.

Generational chances are different too. With the dependency burden decreasing, households with 50–59 year-old household heads lived on a 21% higher income than the average, while owing to having children later in life, real income of the 30–49 year-olds rose to the smallest extent. In households having children aged below 20, per capita income was 20% less than the average. The disadvantage is 43% if there are no active earners in households, 28% if only household heads are active earners, and 2.8% if there are additional active earners in households.

Income position differs depending on the level of economic development and the job-creating ability of regions. Since the middle of the 1990s, the income of people living in the region of Central Transdanubia has grown at an outstanding level and has exceeded the average, while it had been below that formerly. There has been an above-average rise in the Central Hungary region, where, in addition to the capital city, the situation of people living in Pest county has also improved substantially. The same trend has prevailed in the region of Northern Hungary, which, however, has only lessened the former disadvantage. There have been fewer beneficial effects of economic growth in the eastern and southern areas of Hungary. The population in these regions has lived on a below-average level of income, except for those living in bigger towns.

The extent of income poverty – in accordance with international recommendations, the proportion of people living on less than 60% of the per capita median income – is some 17%, equal to 1 million

650 thousand people in 480 thousand households. In these households, annual per capita income is HUF 313 thousand only, and social benefits accounted for more than half of the net income.

Financial assets of households*

At the beginning of the 2000s, **gross household savings** rose at a slowing rate until 2003. After that, resulting from an annual growth of 14–15% in 2004–2005, they amounted to HUF 19 trillion at the end of 2005. Accumulated savings were over 73% of GDP in 2000, more than 81% in 2004, and over 87% in 2005.

In old member states of the European Union⁵ the proportion of household savings to GDP is well in excess of this. The highest relative figure was in the United Kingdom and the Netherlands (2.7 times their GDP), followed by Belgium with a 2.5 times rate, and the lowest was in Finland, but even there, savings were 14% higher than GDP. In new member states – except for Cyprus – the amount of savings remained below the amount of gross domestic product.

A slightly diminishing proportion – nearly two fifths in 2005 – of domestic savings was cash and bank deposits. They totalled HUF 7.2 trillion at the end of December, around 20% of which was cash, and the remainder was deposits. Within this latter, the amount of foreign exchange was up in 2005 after a decline in previous years. Forint deposits, which represent the decisive proportion, have risen steadily. The growth in forint deposits took place as nominal interest rates on term deposits lessened, and those on at-sight and current account deposits slightly rose from the second half of 2004, and decreased later. In

* Source of data: National Bank of Hungary.

⁵ Source: EC economic data pocket book, Eurostat, 2005.

December 2005, interest rates on at-sight and current account deposits were of 2.6%, 5.1% on term deposits maturing within one year, and 4.7% on term deposits maturing after one year.

An almost unaltered part, about a third of household savings (HUF 6.5 trillion in 2005) was in securities (shares). In former years, 85% of them were shares and other equities, while the rest was mutual fund shares. In 2005, this rate changed: the proportion of the former ones went below 80%, while the stock of mutual fund shares rose 1.8-fold over the previous year. A shrinking rate of savings, hardly more than 6% in 2005 was represented by securities other than shares – mainly securities of the central government –, the amount of which has risen at a slower pace in the past years than the average growth rate of savings. The stock of HUF 1.2 trillion at the end of 2005 was less than in the previous year even in nominal terms.

Pension fund reserves and insurance premium reserves have represented a steadily and dynamically growing part of gross household financial assets for several years. Their combined proportion at the end of 2005 was over one sixth of all savings, or more than HUF 3.1 trillion. Within this, insurance premium reserves had represented the bigger proportion in the beginning, but this rate turned round by the end of 2002, and the share of pension fund savings has already reached 60% at the end of 2005.

In recent years, household **liabilities** rose at an extremely high rate, to five-fold over year 2000. The increase was higher in the first three years, and its rate slowed in the past two years, its amount has expanded by HUF 1 trillion annually, and reached nearly HUF 5.7 trillion at the end of 2005.

Credits and loans have accounted for a growing proportion – 90% in 2005 – of liabilities, while other liabilities (liabilities not elsewhere classified and commercial credits) for the rest.

Of old member states of the European Union, the extent of household liabilities was the highest - more than the amount of GDP - in Denmark, the Netherlands and the United Kingdom, and the lowest in Italy, where it accounted for one third of gross domestic product. A lower level than this latter was characteristic of new member states. In Hungary, household liabilities accounted for 26% of GDP at the end of 2005, against below 9% in year 2000.

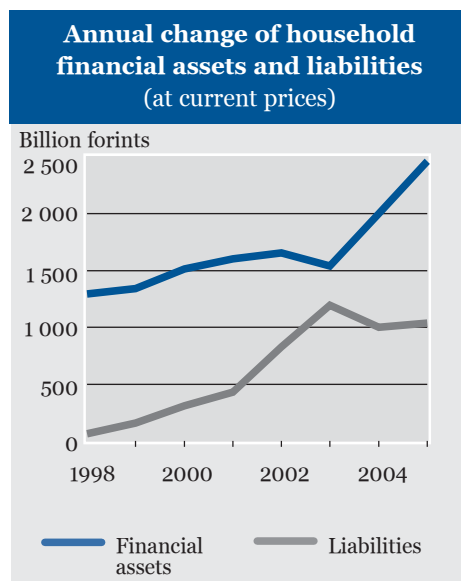
The increase of liabilities was accompanied by a major redistribution among creditors, types of credit and currencies serving as ground for credits (forint or foreign exchange). The real estate loans provided by credit institutions – as a result of mostly state-supported and low-interest credit – nearly doubled in 2003, followed by slower, 27% and 20% rises, respectively. They amounted to 2.3 trillion forints at the end of 2005, which was two fifths of all household liabilities. As for maturity, almost all real estate loans were maturing after 5 years, and one fifth of them was foreign exchange-based, essentially paid out in 2004–2005. The rate of increase of consumer and other credit provided by credit institutions has been accelerating year by year, reaching some 40% in 2005, and they amounted to over 1.5 trillion forints at the end of December. The growth of foreign exchange-based credits in the last two years has been conspicuous in case of this type of credit too, as a result of which their proportion within consumer and other credit has gone over two fifths. Although the rate of increase of credit provided by other finan-

cial intermediation institutions (financial and investment enterprises, leasing enterprises, investment funds and their managers) has slowed down since 2002, it remained substantial at 42% in 2004 and 23% in 2005. These amounted to HUF 1.1 trillion at the end of December, which was nearly one fifth of total household liabilities, and the proportion of foreign exchange-based credit was the highest for these, having approached 80% at the end of 2005.

The role of foreign exchange-based – and especially Swiss franc-based – credit has become more and more substantial in the past two years in the case of credit provided to households, accounting for a quarter of credit stock in 2004, and over one third in 2005. This was largely due to commercial banks applying central bank base rate rises with a relatively small time lag, while the downwardly-inflexible loan rates have followed interest reduction at a slower pace. At the same time, euro- and especially Swiss franc-based credits have provided considerably more favourable interest and credit cost terms than the domestic ones. In December 2005, the interest rate on forint-based housing loans was of 8.9%, and that on consumer and other credit of 18.7%. Within this latter, the level for personal loans was higher, and the one for vehicle loans lower. However, all in all, the average credit cost indicator has lessened very slowly, and ranging from 27.3 to 31.7% in December 2005, it was 28.3% on the average. The average annualised interest rate of Swiss franc-based credits in 2005 was 3.2% for variable interest housing loans, 3.6% for freely usable mortgage loans, and 9.9% for personal loans. The average credit cost indicator was 6, 7 and 14.5%, respectively.

Net financial assets of households have been significantly influenced by the

dynamic growth of liabilities since the last years of the nineties, which was highest in absolute terms in 2003 at 1.2 trillion forints, accompanied by a 1.5 trillion forint rise of savings, the lowest for the past five years. In 2004 and 2005, gross savings were 2 and 2.5 trillion forints up, respectively, while liabilities increased by 1 trillion forints in both years. As a consequence of all this, the rise of net financial assets was lower in 2003 than in the years before, but became substantial in the next two years. At the end of 2005, net financial assets of households were 13.4 trillion forints, representing 61% of GDP.



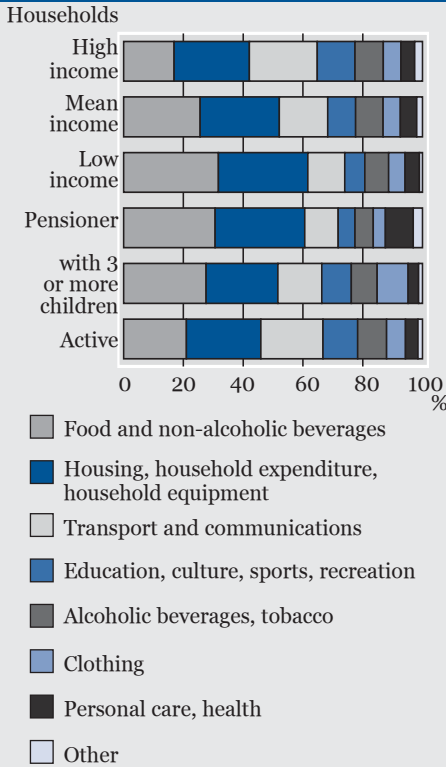
The **ratio of deposits to loans** lessened from 8.5 at the end of year 2000 to 4 in 2003, and to 3.4 at the end of 2005. Regarding foreign exchanges, the population has become a net foreign exchange debtor since the second quarter of 2004, and this process has continued ever since. Their foreign exchange assets covered 55% of their foreign exchange liabilities at the end of 2004, and 36% in 2005.

Consumption

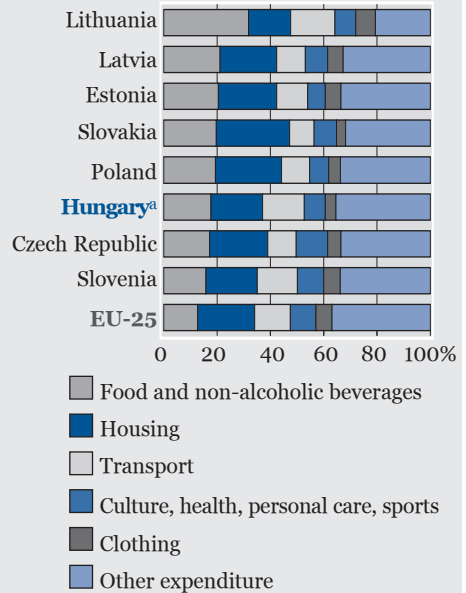
The consumption of households – according to national economy accounting – increased at a slower rate in 2005 than in the previous years, and exceeded by 2.1% that of one year before. More than a quarter of expenditure was spent on housing, overheads and household equipment, less than one fifth on food consumption, and almost the same proportion on transport and communications. Hungarian population spent 11% of its expenditure on recreation and culture, 7% on alcoholic beverages and

tobacco, while 5.4% on clothing and less than 3% on health. The structure of expenditure of different income strata of the population (and living on different sources of income) differs depending on circum-

Expenditure structure of different strata of the population, 2005



Distribution of households consumption expenditure in the EU-25 and the new member states*, 2004



* Excluding Cyprus and Malta.

^a Excluding expenditure on education.

stances of life. The share of expenditure on food consumption and housing is lowest among people with a high level of income and those living with economically active household heads, where social income accounts for the lowest proportion of income, and the amount spent on transport, telecommunications, education, culture and recreation is the highest. The most dominant factors in households of people with low income and pensioners are food

⁶ On the basis of the weights used for consumer price index calculation in 2005.

and housing. The proportion of expenditure on health and medicine is evidently the highest among pensioners.

Hungarian households derate more of their expenditure to food, transport and telecommunications, and less to housing, recreation and clothing than the EU average. The share of expenditure on food is highest in Lithuania among new member states, housing in Slovakia and Poland, transport in Lithuania and Hungary, recreation in the Czech Republic and Slovenia, and clothing in Lithuania and Slovenia.

Over 39% of households were equipped with computers in 2005, and Internet use has also spread. 17% of households are con-

nected to the world-wide web, but the proportion of Internet users of the population - due to Internet access points at workplaces, schools and e-points - is much bigger than that.

74% of households have mobile phones. There has been an outstanding rise in the popularity of DVD players among modern entertainment electronics goods: the proportion of households with DVDs grew from 14 to 24% over the previous year. Although at a significantly slower rate than entertainment electronics, dishwashers and drying machines have been spreading in Hungarian households.

Living conditions

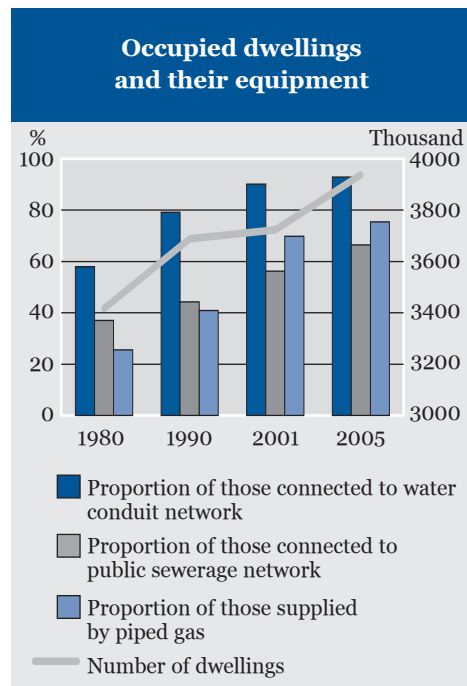
Housing

On 1 April 2005 – at the date of the micro-census – there were 4 million 173 thousand dwellings in Hungary, 108 thousand more than on 1 February 2001. **The number of dwellings** was 2.7% higher, while that of occupied dwellings, which make up 94% of the stock, was 5.7% higher than the corresponding figures of the last population census. The growth was above average in Western Transdanubia and Central Hungary, and remained below that in the regions of Central Transdanubia and Northern Hungary. Partly resulting from the population decline, occupation density has improved at the same time: there are 251 persons per one hundred occupied dwellings instead of 267. According to EU standards those dwellings are considered overcrowded, where there are more than one person per room. At present, there are 1.1 million such dwellings, i.e. one in every four dwellings is overcrowded.

Since the privatisation of dwellings there has been hardly any change in ownership. Private individuals possess 96.3% of occupied dwellings, while legal entities the rest, of which the proportion of local government ownership is 3%. While 40–60% of dwellings are owner-occupied in Western Europe, this rate is 90% in Hungary.

In 94% of dwellings, occupants live in one household. Though nearly two thirds of such households are families at the same time (family households), 31% of them are households the members of which do not form a family. The number and proportion of these latter have risen to almost 2-fold since 1980. Considering the number of

occupants, the group of dwellings occupied by two persons is the biggest (29%), but dwellings occupied by one person have nearly the same share (26%). Of the latter ones, old-age people live in 625 thousand dwellings (60%).



In 2001, the majority of dwellings had 1 or 2 rooms, a situation changed by 2005, when a minimal preponderance (50.4%) of dwellings with 3 or more rooms prevailed. The detailed breakdown by the number of rooms reflects that dwellings with two rooms have the highest share. In spite of a slight increase in their number, their proportion has fallen below 40% of the total dwelling stock. The average floor-area of

occupied dwellings was 78 m², equivalent to 31 m² per occupant. Both indicators have increased by 3 m² on the population census held in 2001, equal to the rise between 1990 and 2001.

The equipment of dwellings has further improved at a slowing rate. The most important change in the period between 2001 and 2005 was that the proportion of dwellings connected to public sewerage network grew from 56 to 67%, thus, including home sewerage systems, sewage is piped from 94% of occupied dwellings. However, equipment shortage is worth to be mentioned, too: as calculated using the average occupation density there are more than 500 thousand people in whose dwelling there is no (either public or domestic) water conduit system, over 570 thousand persons live in dwellings with no sewerage system, and more than 910 thousand occupants do not have the possibility to use water closet. 58% of occupied

dwellings are centrally heated, and the rest have individual premise heating.

Owing to an upturn in **dwelling construction** at the turn of the millennium, the number of dwellings completed increased by at least 10% each year until 2004, when the rise was over 20%. In year 2005, there was a slight, 6% fall in the field of dwelling construction, pre-indicated by a decrease in the number of construction permits in 2004.

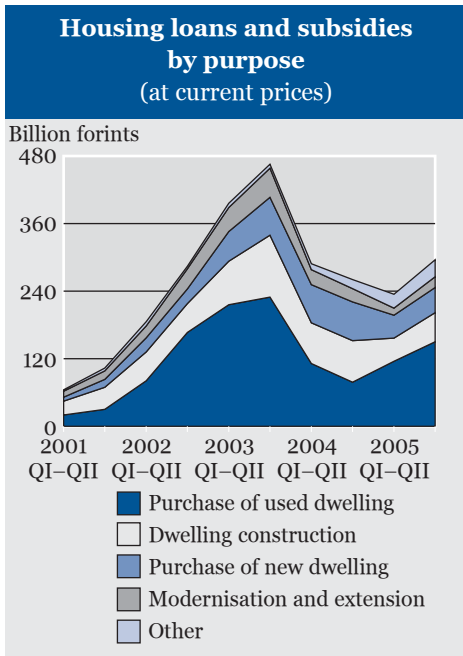
There has been acceleration in urban dwelling construction in the 2000s, while growth has not been substantial in villages. From 2004 on, dwelling construction in the capital city has risen at an even higher rate, though not followed by other towns in 2005, as they underwent a decline. In 2005, 80% more dwellings were built per ten thousand inhabitants in Budapest (73) than nationally (41). That year not only villages (28) remained below the national average, but also other towns (39). Among

Dwelling construction

Year	Number of dwellings built	Of which those built, %				
		in Budapest	in other towns	in villages	for sale	in multistorey buildings containing several dwellings in residents' parks
2001	28,054	16	49	35	22	22
2002	31,511	21	50	29	30	33
2003	35,543	18	54	28	32	38
2004	43,913	23	49	27	40	41
2005	41,084	30	47	24	48	46

regions, the number of dwellings completed per ten thousand inhabitants was significantly higher in Central Hungary than the average, and was similar to the national average in Western Transdanubia. Performance of the remaining regions was lower than the average. The least dwellings per ten thousand inhabitants, hardly over half the national average, were built in Northern Hungary, Southern Great Plain and Central Transdanubia. Of these, the stock of dwellings is small in Northern Hungary and Central Transdanubia, occupation density is higher in these regions than the national average.

The number of dwellings built for sale and built by enterprises increased by 12% – and by nearly one third in Budapest – and their share rose to 44%. Compared to private individuals and companies, local governments play an insignificant part in dwelling construction (they share with hardly 2% in case of new dwellings). It was in 2005 for the first time that more dwellings were completed in new multi-storey buildings containing several dwellings or in buildings in residents' parks than in detached houses (46 and 42%, respectively). The average floor area of dwellings completed was 87m², compared to 62 m² in Budapest. The average floor area has decreased by 6 m² – by 9 m² in Budapest – over one year.



Housing loans totalled HUF 2,242 billion at the end of 2005 (10% of GDP). 21%, against 8% at the end of 2004, of this sum comprised foreign exchange-based loans. 121 thousand new loans were granted during the year, of a total amount of HUF 538 billion. It was a fall of 2% by number and a rise of 5% by amount, which raised the amount of the average loans, too. The state subsidised 36% of the amount of loans granted, as opposed to 61% in the previous year.

It is mainly constructions in the capital city that determined the features of the national dwelling construction. Over two thirds of new dwellings were built by construction industry organisations, and private building activity continued to decline.

The environment and its protection

There are 829 thousand hectares of protected areas of national significance in Hungary today, where all living creatures are protected. 58% of these areas belong to our 10 national parks enjoying the highest level and the most variable protection, and 38% to the also large-area and coherent 36 landscape protection regions with specific natural or landscape endowments. The nearly one and a half thousand protected areas of national or local signifi-

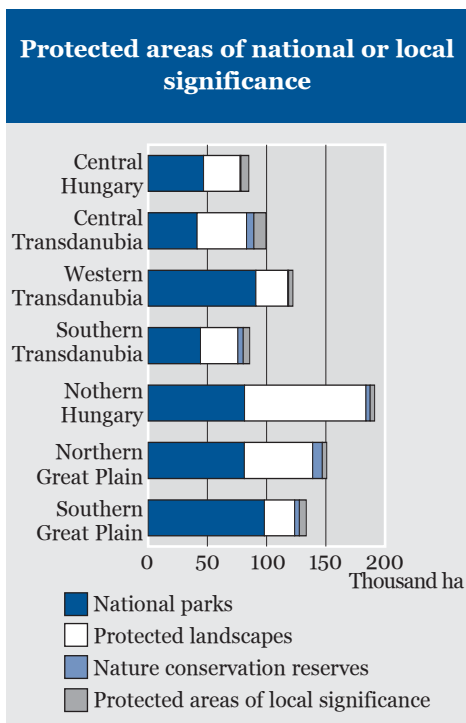
cance account for 7% of the total 868 thousand hectares under protection. The protected areas include wetlands, which are shelters for many species of migrating birds (Ramsar areas). The „Man and Biosphere” programme of UNESCO determined within our protected areas the 5 biosphere reserves which serve the protection of different natural and close-to-natural ecological systems.

Hungarian specialists have already delimited – and from the middle of 2006 the European Union will publish – the areas of the „Natura 2000” programme supervised by national parks, and thus the proportion of areas under nature protection is more than doubling. Natura 2000 is a coherent European ecological network, which ensures the protection of biological diversity through the protection of habitat types, animal and plant species of community significance. Hungary is part of the Pannonian bio-geographical region, which is the home of several species and habitat types that are not found elsewhere in the European Union. 42% of the 1 million 950 thousand-hectare Natura 2000 area is part of Hungarian areas that have already been protected.

One fifth of Hungary's area – 1 million 836 thousand hectares – was covered by **forest** in 2004, a growth of 13 thousand hectares over the year before. This forest cover is a rather low rate on a European scale. Measured by the extent of defoliation, Hungarian forests are qualified moderately damaged among European countries. In 2004, the share of healthy trees went up, while that of slightly or moderately damaged ones diminished, which differs from the trend of former years.

Even by European standards, an outstandingly high proportion (63%) of the

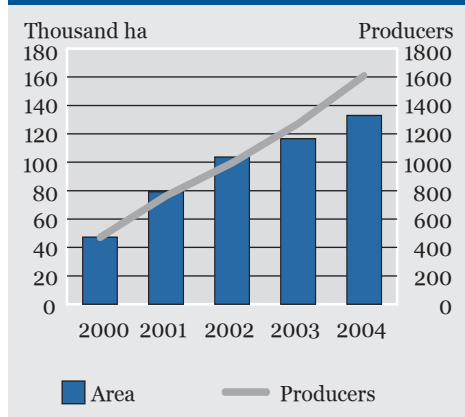
area of Hungary is utilised by **agriculture**. The volume of chemicals used in Hungary is around half the EU-15 average, though pesticide use per hectare calculated on the basis of sales was 33% higher in 2004 than one year before.



State-subsidised **land improvement** was realized on 10 thousand hectares in 2004, a 37% smaller area than the previous year. In the past two years the improvement of saline and sandy soils has come to the foreground, while that of acid soils has lessened. Nearly 70% of land improvement projects were carried out in two regions: Western Transdanubia and Northern Great Plain. As for other land improvement projects, there were 700 hectares more area under land regulation and 1,800 less under water regulation.

The number of farmers pursuing **organic farming** and the area of land used for ecological cultivation, in consequence of rising government subsidies and market demand, has been increasing. The proportion of land used in organic farming grew to 2.3% in 2004 (the EU–15 average was 3.7% in 2002). It is crop production that dominates organic farming in Hungary, ecological animal husbandry was observed in hardly 10% of the farms concerned. However, organic apiculture, which has been operating in Hungary since 1998, is substantial on a European scale, 169 apiculturists keep more than 14 thousand bee families.

Areas under organic farming and the number of producers in Hungary



Nearly half of the controlled areas are covered by grassland, meadows and pastures, while cereals are produced on 21%, forage plants on 15% and oil-bearing crops on 6% of them. Fruits are grown on almost 2 thousand hectares, and vegetables on over one thousand hectares.

According to year 2004 data 1,842 controlled enterprises pursued ecological cultivation.

The majority (87%) of them are agricultural producers, in addition to the abovementioned apiculturists, 160 enterprises are specialised for processing, 67 for trade, 5 for import and 10 for the collection of wild plants. Organic farming in Hungary is the most widespread at present in the two regions of the Great Plain and in Northern Hungary.

National **water consumption** has decreased by one quarter or 1.6 billion m³ since the beginning of the nineties, and has varied between 5.2 and 5.4 billion m³ annually in the last 5–6 years. (A quarter of this has been sold by water supply, the components of which are drinking and agricultural water consumption.) The decrease was mainly due to the decline of domestic use to one third and the fall of irrigation use to less than a half. The reason for this economising may be the rise of water and drainage charges at a rate faster than the consumer price index. According to the analysis of drinking water at water works in 2004, more than 4% of bacteriological and somewhat more than 7% of chemical analysis samples were rated „unacceptable”. The number of settlements temporarily without healthy drinking water diminished from several hundreds in 1990 to 27 in 1998, and was up again to 34 in 2004.

Reflecting the fall in water consumption, the volume of sewage discharged into the **public sewerage network** decreased by 36% over 14 years to 558 million m³ in 2004. A larger and larger proportion of this sewage receives biological or advanced treatment: the share of sewage treated at least biologically grew from 35 to 66% over 5 years.

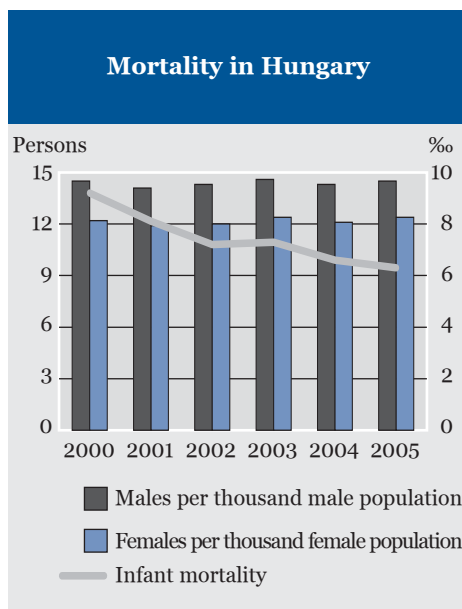
In towns and villages, 4.3 million tons of solid **waste** and 5.1 million m³ of liquid waste was collected from households,

enterprises and public areas. 92% of dwellings were served by waste collection services. Generation of solid waste might be a few hundred thousand tons greater than collection, but in the case of liquid waste, the equivalent gap might be very wide indeed. Most solid waste not collected ends up in illegal dumps, while liquid waste seeps into the soil, thus endangering drinking water sources. 2.8 million tons of solid waste was collected from households, the majority (94%) by normal waste removal, 1.8% selectively, and some 5% in junk uplifts. 1.4 million tons of waste was generated at enterprises, and 156 thousand tons were collected after cleaning public areas.

Of the standard **air pollutants**, sulphur dioxide emissions fell by 5.1%, nitrogen oxides emissions by 2%, and that of volatile non-methane organic compounds by 0.7% in 2003. For the first time since the change of regime, emissions of carbon monoxide and solid matter were up by 5.5 and 4%, respectively. Carbon monoxide emissions mainly come from transport. Of greenhouse gases, there was a rise of 3.5% in 2003 in the emissions of carbon dioxide from the combustion of fossil fuels, as against the downward trend in previous years. Methane emissions, also deriving from combustion of fossil fuels, augmented as well, by 0.8%. A gradual reduction of greenhouse gas emissions would be important because Hungary must meet its commitments to reduce pollution as laid down in the Kyoto Protocol relative to these emissions. This does not cause a problem in the short term because of the 1987 base year and the subsequent structural changes in the economy resulting in the fall of emissions, but necessitates further reductions in the long term.

Health

After a decrease in Hungary in 2004, **deaths** among both sexes were on the increase again in 2005. There were more deaths among 45–60 year-old males and among females aged over 56 than in the previous year. Average life expectancy has continuously grown for females and after a slight fall at the beginning of the nineties, slowly for males. In spite of the improvement, however, our situation has remained unaltered in the European Union. In 2004, average life expectancy at birth was 6.4 years lower for males, and 4 years lower for females than that of their counterparts in the enlarged EU. In the female population of the EU-25, only Estonian and Latvian females live for a shorter time than Hungarians, while average life expectancy is lower only for the male population of the Baltic states than for Hungarian males.



The two leading causes of death in Hungary – similarly to the rest of Europe – are diseases of the circulatory system and malignant neoplasms. The former leads to half of deaths, and the latter to a quarter of them. Especially females suffer from diseases of the circulatory system. 57% of female deaths are caused by cardiovascular diseases, principally heart and cerebrovascular diseases, against 45% of males'. This compares with a higher death rate among males because of malignant neoplasms, diseases of the respiratory or the digestive system, or some external causes (accident, suicide).

Hungarians' poor living prospects compared to their EU counterparts is mainly due to **lifestyle**. Data of the WHO (World Health Organisation) show that 29% of the EU population smoke every day, as opposed to 34% in Hungary. Similarly high rates were observed for Poland, the Netherlands, Latvia and Slovenia only. It has obviously a bearing on the fact that the number of new pulmonary or bronchial cancer patients per thousand inhabitants is only higher in Switzerland than in Hungary by European comparison. Hungary's alcohol consumption is one of the highest in Europe, too. While 9.3 litres of alcoholic beverages calculated in pure alcohol equivalent per inhabitant are consumed in the EU, 11.6 litres are drunk in Hungary. (The 13.2 litres for the Czech Republic and the 10.5 litres for Austria are also at the top of the EU-ranking). The number of alcoholics in Hungary was estimated at nearly 700 thousand in 2004, although only a small fraction (4.5%) of them are registered at addictology dispensaries. Two thirds of persons cared of are of middle age (35–54 years old), and over three quarters of them are males.

In 2004, **basic health care** was provided by 5 thousand general practitioners and 1600 family pediatricists, 90% of whom worked as entrepreneurs. There were 1,520 inhabitants per doctor in basic health care, a rate somewhat lower than in 2003. The number of those consulting the GP and that of home visits exceeded 57 millions, and 10 millions for children. The number of consultations at and home visits of general practitioners in villages is 13 thousand annually, 2 thousand more than in case of their urban counterparts.

Up to the age of 18, diseases of the blood and blood-forming organs, refractive irregularities involving the ocular muscles, asthma and dorsopathies are registered most often by family pediatricists. Among adults, cardiovascular diseases were the most common, of which high blood pressure was in first place (more than 1.8 million cases per year), followed by diabetes mellitus and various spondylopathies.

In addition to obstetricians and family pediatricists, mother and child health nurses also provide pregnant woman and infant care. In 2004, 99 thousand expectant mothers were registered, 36% of whom required special care. The rate of endangered pregnancies was almost 50% in Northern Hungary. The proportion of expectant mothers who smoke has not gone below 14% for several years. The nutrition by mother's milk for babies under four months old has fallen by 7 percentage points over 1 year, and is 63% at present. The average number of under-16 children registered in mother and child health nurse districts was 1.7 million in 2004, of which 11.6% required special care.

With the reorganisation of the health system in 1995 and changes in regulation, **outpatient** visit number increased

abruptly in 1995. The number of medical treatment cases was 204 million, and the number of physicians' working hours was 17 million in 2004. The number of medical treatment cases increased by 30% over four years, while the number of physicians' working hours by 6%. The reason for this is that similarly to the previous years the number of laboratory examinations was the highest in 2004, too: 129 million, 46% more than in 2000.

Figures for **pulmonary dispensaries** show a falling incidence of tuberculosis and the rise in non-tubercular respiratory diseases. There are 22 tuberculosis patients and 5,500 non-tubercular patients with a pulmonary disease registered per hundred thousand inhabitants. The number of the former contracted by 11% over one year, while that of the latter increased by 9%. 41% of the 553 thousand non-tubercular patients registered in 2004 suffered from hay fever, 33% from asthma, and 11% from chronic bronchitis. The number of hay fever sufferers grew by 11% over one year; however, as several professions are competent in treating this disease, the real incidence of the disease might be even higher. The number of new patients with bronchial cancer was 6,500, and a total of 17 thousand people were treated for this disease, more than half of whom were operated on. 38 of every hundred new pulmonary TB patients and 33 of every hundred new lung cancer patients were detected by screening.

The country's 144 **psychiatric dispensaries** treated 141 thousand patients in 2004, 65% of them were females. The number of patients has been the highest in the 35–54 age-group for both sexes, and has slightly been rising year by year. The most typical diseases were schizophrenia, mood disorders and other neurotic and many dif-

ferent disorders with psychological reasons and physical symptoms that have no organic cause.

Cardiology care is very important in Hungary because of the high incidence rate of heart diseases. The number of patients treated in hospitals because of acute cardiac infarction had remained below 10 thousand for years following the turn of the millennium, but went above that figure in 2004. The spread of modern technology can be observed in diagnostics and medical treatment, too. The number of heart operations has been up by 5% annually on the average since the middle of the nineties, closed technology (without heart-lung engine) was applied in one third of the more than six thousand operations in 2004. The number of pacemaker operations was 2,800, 44% lower than in the year before. The number of hamodynamical examinations, primarily used for coronary angiography and coronary angioplasty, has increased to nearly four-fold since 1999, some 49 thousand such examinations were carried out in 2004.

In-patient care in hospitals and clinics employed 12,600 physicians and 56 thousand ancillary workers in 2004. 80 thousand beds were available for patients, 75% of which in acute and the rest in chronic wards. There was a national average of 79 beds in use per ten thousand of population, much more in Budapest (132), and 68 on the average in the rest of Hungary. In acute wards, internal medicine, neurology and psychiatry, surgery, obstetrics and gynaecology, neonatology and paediatrics work with the most beds. Among chronic wards, rehabilitation and psychiatry wards have the highest numbers of beds. Utilisation of beds is 87% in chronic wards, while 77% in acute wards.

In 2004, 2.8 million patients were treated for in hospitals which took 23 million nursing days. The average length of nursing was 8.2 days, against 8.9 days in 2000. The average length of nursing in acute wards (6.5 days) is considerably shorter than in chronic wards (31.5 days).

In 2004, there was no substantial change in the number of people working in health care. There were over 177 thousand people employed in **jobs** there, 31 thousand of them were physicians. 41% of physicians worked in inpatient service, 18% in outpatient service and 21% in general practitioners' service. Approximately 40% of them worked in Central Hungary, where 30% of the population live, while the number of physicians per ten thousand inhabitants in Central Transdanubia and Northern Hungary accounts for two thirds only of the national average. Over half of health care jobs were those of ancillary workers in 2004, like before. 57% of ancillary workers were employed in inpatient service, and 15% in outpatient service. The largest proportion of these were nurses (55%).

Health care expenditure accounted for 7.8% of GDP in Hungary, a lower rate than the EU-25 average (8.62%), but higher than the average for the new member states (6.47%).

Social services

The social service system assists groups that are socially disadvantaged for any reason. Both the number of social institutions providing accommodation and the number of their residents have been increasing since 2001. In 2005, there were somewhat more than 81 thousand residents in 1,388 social institutions. Of this, the number of residents in long-term residential social institutions has risen significantly on 2001, while in short-term residential social institutions has grown less significantly. 62% of long-term residential social institutions provided accommodation for elderly people, 19% for disabled adults, and 11% for psychiatric patients. In 2005, some 2,000 persons were provided accommodation in homes for addicts and another 2,000 in homes for disabled children. Over two thirds (6,850 persons in 2005) of residents in short-term residential social institutions were served in shelters or night shelters for homeless people. Though the number of people assisted in homeless shelters has risen by over five hundred over the previous year, their proportion to residents in other short-term residential social institutions has remained unchanged.

Social institutions ensuring long-term and temporary residence

Denomination	2001	2002	2003	2004	2005
Number of sites	1,206	1,249	1,322	1,343	1,388
Number of active beds	76,285	77,620	79,861	81,126	83,970
Number of residents	74,338	75,541	77,386	78,462	81,117
Number of residents per ten thousand inhabitants	73.1	74.5	76.5	77.7	80.5

The number of endangered minors registered at guardianship authorities was almost 224 thousand, 0.8% fewer than the previous year. Their number has been declining since 2001. 56% of them were endangered for financial reasons, 4% for health reasons, 22% for environmental reasons and 17% for behavioural reasons.

Endangered minors lived in somewhat more than 107 thousand families in 2001, as opposed to 98 thousand in 2005. Despite a decrease in the number of endangered children, there has been a rise in the number of those in guardianship or care over 2001. There were 28,700 minors in guardianship in 2001, as against 30,300 in 2005. The number of those in care has grown by 7 thousand over 4 years, and approached 50 thousand in 2005.

Although the number of minors available for adoption has increased year by year, the number of adoptions has been fewer and fewer. Permission was granted for 870 adoptions in 2001, compared to 773 in 2005. The number of minors available for adoption has been up from 441 to 614 over 4 years. In 2005, 2,369 parents were qualified capable for adoption.

There are some 3,000 people employed in family assistance service. 330 thousand people used their services in 2005, which, as a result of a continuous rise, means 40 thousand more users of services than in 2001. In organisations providing child welfare services, the number of children receiving services has steadily declined over previous years with the exception of 2002, thus 130 thousand children were registered in 2005 as recipients of the services.

Family assistance and child welfare services

Year	Family assistance services			Child welfare services		
	number of organizational units	number of employed persons	number of recipients of services	number of organizational units	number of employed persons	number of child recipients of services
2001	776	2,820	290,357	1,497	3,707	193,071
2002	805	2,455	310,429	1,587	3,906	206,907
2003	777	2,587	307,345	1,541	3,939	173,844
2004	813	2,638	315,024	1,623	3,828	163,430
2005	825	..	330,040	1,497	..	130,383

Books, culture and recreation

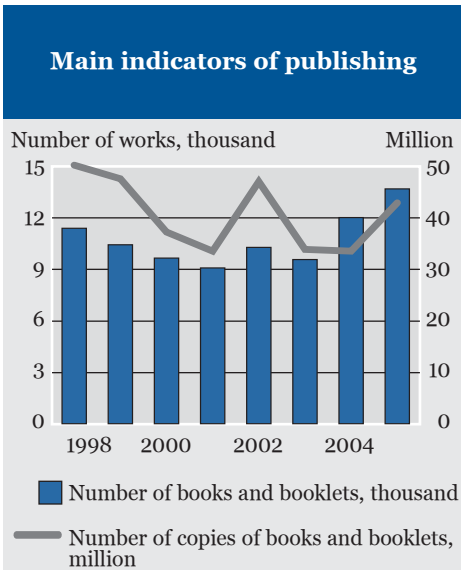
Nearly 13 thousand books were published in Hungary in 2005, of which almost 41 million copies were printed. The number of titles rose by some 1700 (15%), and the number of copies was 28% higher than the previous year. This shows an increase in the average number of copies over the previous year, which is, however, lower than in former years. In 2005, 34% of publications were technical, and 21% literary, which rates are almost equal to those characteristic of former years. Literary works accounted for a quarter of copies, technical books for 13%, and textbooks for 40%.

There were more than 9,000 public, specialised and school **library service units** nationally in the middle of the decade, half of which were school libraries. Public libraries contained 45 million library units (books, bound journals etc.), which was one third of total library stock. The demand for library services has hardly changed: there has only been a small decrease in the number of registered users, borrowings and borrowers. There were 1 million 452 thousand users registered in public libraries in 2004, which was a fall by 35 thousand over the previous year. The number of units lent was 32 million, one and a half million less than one year before. The biggest public library stocks are in the counties of Transdanubia.

Every fifth member of the public is registered at a library, and users borrow one book every two weeks on average. A considerable part of public library users are members of the younger generation, one in three registered users are 14 years old or younger.

Attendance at outdoor cultural events has lessened. The decline of cultural consumption is also related to price rises of books, the printed press and tickets. The average price of a cinema ticket was 809 forints in 2005, over 270 forints higher than in 2000. A theatre ticket cost more than 1,400 forints on average in 2005.

There has been a steady rise in the number of cinema performances due to the appearance of multiplex **cinemas** in Budapest and other towns. Despite a substantial growth of the number of performances, cinema attendance has been falling in the past four years, and stood at 12 million in 2005. In recent years, 4 new films have been premiered in Hungary every week, most of them American (some 50%). There has been a fluctuation in the proportion of Hungarian film-goers in the recent period:



In 2005, the book market turnover in nominal terms was 7.8% up on the previous year, and reached nearly HUF 63 billion. The highest turnover was in school textbooks and language books (26%) as well as educational works (23.9%).

10.3% of tickets were sold for these performances in 2004, against 13.7% in 2005.

There were 54 **theatres** in 2005, 22 of which in the capital city. Tickets sold for the 14,286 performances held in the country numbered 4.5 million. There were somewhat fewer performances and somewhat more theatre-goers than the previous year. Budapest venues accounted for 48% of performances and 60% of audiences. The number of performances and attendance in villages has been relatively low in recent years, having a proportion of hardly 1%.

The number of performances and audiences of **concerts** organised by the National Philharmonia had increased until 2003, and has slightly lessened since then. 1,428 performances were held in 2003, which fell to 1,355 in 2005. Attendance approached 470 thousand in 2003, against hardly more than 454 thousand in 2005.

Interest in exhibitions of **museums**, museum collections and exhibition sites has grown by 18% in the last 3 years due to the expansion of domestic and international tourism and the extension of the institutional network.

Attendance at the events of **cultural** institutes, as indoor and other alternative forms of leisure have expanded, has steadily declined in recent years. The number of institutes was stabilised at around 3,700 in the middle of the decade, which organised some 90 thousand entertainment and community events.

The increase of **cultural expenditure of the central government** did not keep up with even the annual inflation. The state spent a total of HUF 170 billion on cultural services in 2004, 4% up on the year before.

Expenditure in proportion to GDP fell by 0.1 percentage point to 0.8%. Most expenditure was on the maintenance of cultural institutes (libraries, arts and community centres, museums). The central government subsidised arts establishments (e.g. theatres, music and dance art institutes) by nearly HUF 49 billion.

Legal and public security

74% of the Hungarian population considers their smaller and larger residential environment secure⁷, and thus Hungary is ranked first among the thirteen post-socialist countries in terms of **perceived security**. Almost half of the people surveyed are satisfied with the criminal investigation activity of the police. In Hungary, Belarus and Poland, the opinion on this issue is much better than the average, while people living in Russia and the Ukraine think that the situation is definitely bad.

The judicial system has been extended: 3 new Courts of Appeal were set up in 2003, and another 2 in 2005. The number of people turning to local **courts** judging of first instance has increased again since 2003. Some 720 thousand cases⁸ were submitted to local and labour courts in 2005, 6% more than one year before. More than half of the submitted cases were criminal cases with simplified procedure, and a further 21% of the cases that awaited court decisions were civil lawsuits, 19% were criminal lawsuits, 5% labour cases and 2% economy-related lawsuits. The most considerable growth during the year was observed for criminal cases with simplified procedure and labour cases.

Approaching public security from the point of view of **discovered crimes**⁹, the

⁷ On the basis of a TÁRKI survey in 2005.

⁸ Including criminal cases with simplified procedure.

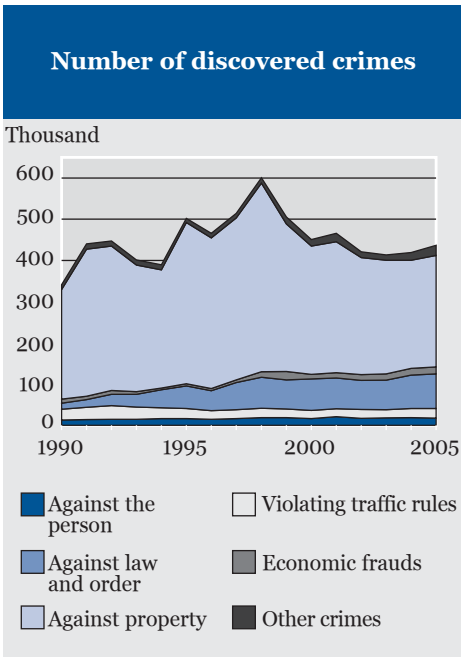
⁹ Source of data: Ministry of the Interior

indicator had decreased following a peak in 1998 until 2003, and rose again in the past two years. In 2005, the authorities cleared up 436,500 felonies and misdemeanours, 4% more than one year before. The number of violations of law has gone up by nearly 18 thousand. There were 10% more felonies compared to the previous year, while the number of misdemeanours was unchanged. No major change has occurred in the structure of crimes, the majority of violations of law have been crimes against property.

tion, justice and the morality of public life, while more against matrimony, family, youth and sexual morals, the economy, the person and law and order. The number of drug abuses was 7,622 in 2005, more than double over 2000. Of that, there were nearly four times as many crimes committed by holding (growing, producing etc.) drugs, and twice as many by distributing them as five years ago.

Last year's change in discovered crimes was that there was a rise in all groups of crimes over the previous year with the exception of crimes against the person. Among crimes threatening life, the number of homicides was 164 in 2005, 44 fewer than in 2004, and that of intentional assaults was down following a rise in the previous year. Three quarters of the growth in the number of crimes was owing to the violation of copyright and abuses of banned pornographic photographs. Both are repeated types of crimes, and are closely related to the spread of information technology tools. It is notable that the rate of drunken or dazed driving on roads has risen.

The proportion of **crimes cleared up** was up from 57% the previous year to 61%. 133,790 perpetrators were discovered, 3% more than in 2004. 9% of perpetrators were young and 3% were children. The number of perpetrators belonging to either generations diminished during the year. The number of foreign perpetrators was 7,366, which is a 13% increase on the previous year. There were somewhat more perpetrators who had a previous criminal record than in 2004. The number of perpetrators having committed crimes against the person and the economy has fallen, while the rest has gone up. The number of those who committed crimes under the



Of crimes that might most directly influence perceived security of the population, the number of burglaries to dwellings per hundred thousand inhabitants has fallen by 35% since 2000, that of motor vehicle thefts by 25%, homicides by 20% and robberies by 15%. Since the turn of the millennium, there have been considerably fewer crimes against property, public administra-

influence of alcohol or drugs rose over the previous year. Most perpetrators live in the capital city, as well as Pest, Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties.

224 thousand natural **persons** were **offended** in crimes, a 5% lower figure than one year before. 5,651 persons offended were children and 8,181 foreigners.

The **damage** caused by crimes against property was HUF 104.3 billion in 2005, while the value of economic frauds was some 30 billion forints. The damage caused by crimes against property is 5% higher, and that by economic frauds 16% lower than in 2004.

The number of **convicts** with definitive sentence was 98,524, 2.2% more than in 2004. The rise was slower than the previ-

ous year. 43% of sentences are fines, 22% are independently imposed auxiliary punishments and measures, 20% are suspended custodial sentences, a further 10% are executable custodial sentences and the rest is community service. The number of executable custodial sentences continued to decline. Young people accounted for 7% of convicts with definitive sentence.

After a growth in the year before, the number of persons in law enforcement institutions lessened by 823 and was equal to 15,720 persons. Of that, the number of convicts, accounting for 73% of those held, fell most considerably, and there was a slight rise in the number of people referred for compulsory medical treatment or confinement.

Parliamentary elections, 2006*

At the fifth election following the change of regime, 8 million 647 thousand Hungarian citizens having the right to vote could decide on 9 and 23 April 2006 on the next government period. Some 0.1% of electors live abroad, who had the opportunity this year for the first time to cast their votes at foreign representation offices of embassies or consulates of the Republic of Hungary.

67.8% of people having the right to vote cast their votes in the first round of elections, and 64.4% did so in the second. Voter turnout was lower than in 2002 but higher than in 1998. Participation in the first round, as opposed to that in 2002, was higher than in the second, and more mandates were gained in individual constituencies in the first round. Turnout at the ballots was higher in both rounds at foreign representations than in Hungary.

Of the 48 parties registered ten put up a national list, and the same four of them crossed the parliamentary threshold of 5%

Number of votes cast on regional lists, 9 April 2006		
Party	Number of votes, thousand	Distribution, %
MSZP	2,337	43.2
Fidesz-KDNP	2,273	42.0
SZDSZ	352	6.5
MDF	273	5.0
Other parties and organisations	173	3.3
Total	5,408	100.0

in the first round as in 2002. No independent representatives were elected to Parliament, but one mandate is represented by the Association for Somogy (Somogyért Egyesület).

Support of coalition and opposition parties, %

Year	On the basis of mandates		According to votes cast on regional lists	
	coalition	opposition	coalition	opposition
1990	59.3	37.8	42.9	41.3
1994	72.9	27.5	52.7	36.1
1998	55.2	44.5	47.8	46.0
2002	51.3	48.7	47.7	41.1
2006	54.4	45.6	49.7	47.0

*The source of data is the National Electoral Committee of Hungary.

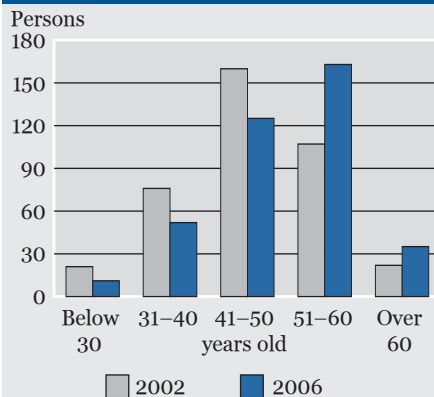
Votes were focused on parliamentary parties more than ever before. Only 3.3% of votes on regional lists were cast on parties that did not cross the parliamentary threshold, while 11.2% of voters "remained without representation" in 2002. (This rate was the highest in 1990, at 15.8%.)

This is the first time since the change of regime that voters' trust has been won by the government coalition. In the coming four years the left-liberal coalition can form a government for the third time. On the basis of mandates received, the gap between the coalition and the opposition is larger (35 mandates) than in the previous elections bringing the lowest ever difference (11 mandates).

The proportion of those who voted on the present government coalition has grown both in terms of votes received in individual constituencies and on regional lists. There has been a rise in the number of representatives of the right-wing opposition elected from the national list in addition to the regional list compared to the previous elections.

The number of female representatives has gone up from 35 to 41, their share from 9.1% to 10.6%, which is low by internation-

Members of Parliament by age



al standards. (The most female parliamentary representatives, 43 were elected in 1994.)

The number of representatives belonging to the generation aged 50 or over has increased significantly, while that of younger ones has fallen.

While in 2002 the most populous age-group was that of people in their forties, today it is that of "senator-aged" people in their fifties.

Economic development, its attained level

International business environment, economic growth

The growth of the entire world economy lessened to 4.8% in 2005 following the record expansion in the previous year, after the slump during 2001–2003. Nevertheless, the aforesaid rate exceeds the long-term average. That is, the economic development remained lively despite the international political tensions, the high oil price, and the external financial disequilibrium of the United States. According to the estimation of the International Monetary Fund, the expansion of the world trade also remained above the long-term trend, however, compared to the previous year a diminished rate can be observed in this field.

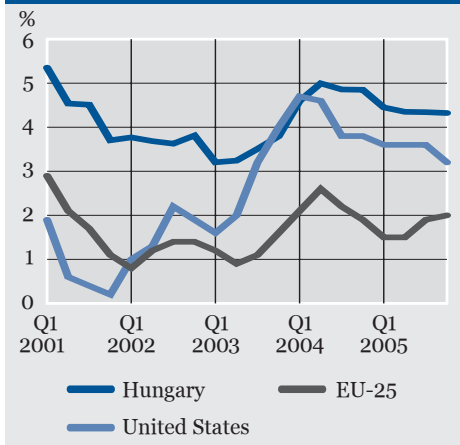
In the **United States** the gross domestic product increased by 3.5% in 2005, more dynamically than the average growth in the advanced countries. The growth gradually diminished within the year, and its annual rate was smaller than in the previous year. Following a long period the export expansion exceeded the growth of imports, and investments evolved also favourably. Nevertheless, the sustainability of the economic growth is surrounded by an uncertainty, deriving mainly from the increasing deficit of the current account and the high general government deficit, as well as the expected exhaustion of the real estate market boom. During the recent decade **Japan** followed a growth path indicating a stronger fluctuation than that in the other advanced countries. In the Japanese economy the bottom of the previ-

ous business cycle was reached by the end of 2004, then a faster economic growth followed quarter by quarter during 2005, attaining 4.3% in Q4, resulting finally in an annual average of 2.7%. The deflation accompanied by a high central government deficit invariably represents a problem to be solved. In the majority of the **developing countries** the rate of the economic growth also diminished, though exceeding the growth rate in the advanced regions. The two economies with the largest population (China and India), however, could maintain the extraordinarily high rates (10 and 8% resp.).

In international comparison, the **European Union** was featured by a more modest growth, GDP dynamics lagged behind the world average to a larger extent in 2005 than in the former year. Following a slump, the uplift in 2004 (with a growth rate of 2.4%) came to an end even within that year. During the four quarters of 2005 the expansion of the GDP did not exceed 2%. In the course of the entire year the gross domestic product of the EU increased by 1.6%, at a rate equalling to half of that during the last prosperity period between 1997 and 2000. That is, the growth rate returned to the path featuring the period of 2001–2003, however, along with a more favourable structure of the use. Namely, the development relies not only upon consumption, but also in part upon investments. Since 2003 imports are growing at a modest rate, but faster than exports, in such a way the external trade surplus of the European Union is disappearing, amounting to 0.8% of the GDP in 2005. The imbal-

ances featuring the United States and Japan prevail in the EU to a lesser extent. It is mainly the smaller economic growth, the weakening competitiveness and the high unemployment that represent problems, while the implementation of the so-called Lisboa strategy to eliminate them delays. The exchange rate of the euro attained a record height at the end of 2004, then slightly weakened in 2005, so the European goods became cheaper in the international markets.

Growth of GDP compared to the same quarter of the previous year
(with seasonal and working-day adjustment)



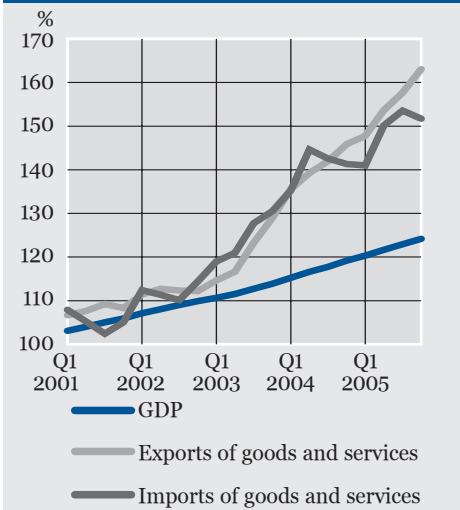
The economic growth is modest especially in the greatest member countries: in 2005 the GDP increased by 0.9 in Germany, by 1.5 in France and by 1.8 in the United Kingdom. These figures are smaller than those in 2004. Similarly to the former years again the less developed Central and Eastern European region could attain a higher rate of economic growth, so its catching up continued. In 2005 the ten new member countries reached a develop-

ment with a 4.4 percentile growth as against a growth of 1.4% in EU-15, and the economic growth of the former countries slowed down to a lesser extent than that in the old member states. In the majority of the new member countries not a slowdown, but an acceleration of the economic growth occurred, their average growth rate declined because of the deteriorating Polish figure, possessing the greatest weight. Invariably, the GDP of the Baltic states increased the fastest (7.5–10%). Nevertheless, despite the rapid catching up rate, the development level attained by the concerned three countries lags the farthest behind the EU average. The Czech Republic and Slovakia reached a growth of 6% in 2005, this rate considerably exceeded the average growth rate in the recent years. (In the former country the external trade, while in the latter one the domestic demand played a decisive role in the growth.) Only in Poland did a significant decline occur in the growth rate: as against the 5.3 percentile growth in 2004 there was a growth rate of 3.2% in 2005.

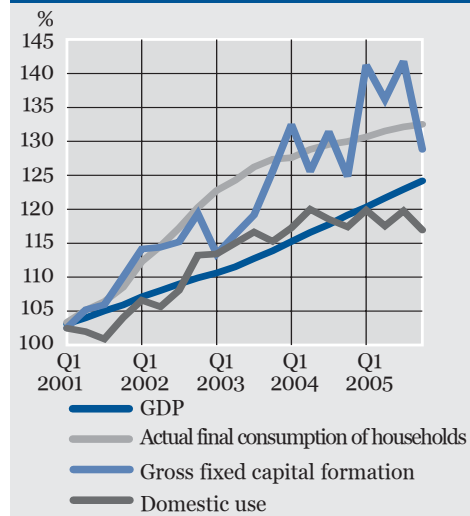
The development of the **Hungarian economy**, in essence, followed the processes in the world economy. In 2005 the economic growth slowed down, but its rate was slightly faster than in the first years of the new millennium. The gross domestic product increased by 5.2% in 2004, while it expanded by 4.1% in 2005, at a rate above the enlarged EU average, but slightly below the average of the newly accessed member states. In Q1 2005 there was an even lower growth rate (3.2%), then increasing along with the other indicators (industrial production, exports) in the next quarters.

The growth rate, in essence, did not alter from the average of the recent years, but its

Index of GDP and external trade compared to the average of 2000 (with seasonal adjustment)



Index of GDP and domestic use compared to the average of 2000 (with seasonal adjustment)

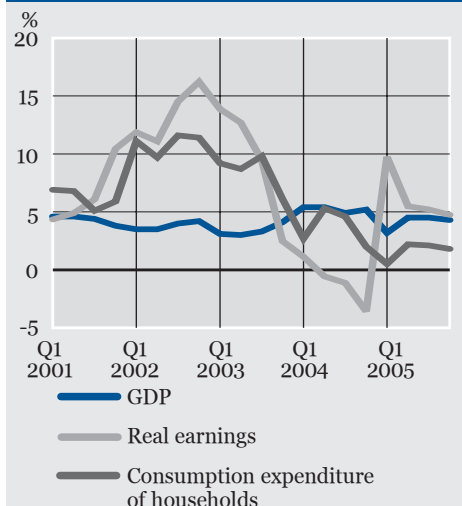


structural composition has changed considerably. The domestic demand, continuously expanding at different rates formerly, stagnated in 2005 due to the strong downturn of consumption expenditures, so the exports increasing more dynamically played a greater role in the economic growth than in 2004. **Exports** of goods and services expanded by 16 and 11% in 2004 and 2005 respectively, while the concerned figures of **imports** were 13.5 and 6.5%. The export prosperity rests upon mainly the lively external market sales of the manufacturing (manufacture of machinery), resulting from the considerable manufacturing investments in the recent years and the favourably evolving external demand.

During 2002–2003 the consumption of the households and the government equally increased at a rate considerably exceeding the GDP growth, that is the consumption rose at a rate surpassing that of the production, unmaintainable in

a longer run. In 2004 a correction occurred in both fields. As a result the expansion of the consumption declined below the growth rate of the GDP. This trend continued in 2005, becoming even stronger, there was a growth rate decline at every item of the domestic use. The greatest component of the domestic demand, the **household consumption** increased by 1.4% in 2005 against the 3.6% in the previous year. The rate decline was shown in the consumption expenditures of the households and in the change of the government financed allowances in kind. The consumption expenditures of the households increased by 1.7%, which can be regarded as modest compared to the 6.3 percentile growth of real earnings, determining decisively the income position. The moderate expenditure increase can be attributed partly to the passing through effect of the stagnating real earnings in 2004 and partly to the increasing savings.

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



A stronger correction took place in the **actual final consumption of government**, its volume increased to a minimum extent in 2004, while it declined by 0.9% in 2005. On the contrary, the growth rate of the **gross fixed capital formation** remained high. The 6.6 percentile expansion can be attributed mainly to road network development works, and branches implementing medium-size or smaller investment activities. The volume of developments by the manufacturing increased only by 2.4% in 2005, following a two-year-long prosperity, and the growth of the dwelling construction also stopped.

The volume of the **domestic use** increased by 0.6%, that is, it hardly altered over 2004, in which, along with the more moderate growth of the consumption and investments, the decline of inventories also played a role. As a result, the equilibrium

position of the Hungarian economy improved, the gap between the produced and domestically used income became narrower. The **deficit of the whole external trade turnover** amounted to HUF 438 billion, at current prices it represented six tenths of the deficit in the previous year. The deficit/GDP ratio declined to 2%, which is a more favourable figure than the average in the former years. Nevertheless, the external trade prices of goods and services changed unfavourably, terms of trade deteriorated by 1.7%. As a consequence, the volume of goods or services purchasable abroad for a unit of domestically produced goods and services decreased. The **gross domestic income** is a GDP-indicator corrected with the external trade terms of trade change, which, according to calculations, increased due to terms of trade deterioration by 3.5% in 2005 in Hungary, i.e. at a rate lower than the GDP.

On the **production side** of the gross domestic product the performance of the construction, relying upon the investment boom, increased at the largest extent (by 14%). The value added of the industry rose at a rate (5.9%) above the average, while that of the agriculture decreased by 14% (mainly due to the base effect, namely that extraordinarily good harvest results were achieved in 2004). Services expanded on the whole at a rate slightly above the average, the growth rate of transport, storage and communication was the highest (9%). Group of services of financial intermediation, real estate, renting and business activities expanded their performance by above 5%, while wholesale and retail trade, repair, hotels and restaurants increased the performance at an average rate. The value added of state-financed services rose by 1.3%.

The gross national income (GNI)

The gross national income is a macro-indicator which can be derived from the GDP. Its use has become general in the international statistical practice due to the progress of the economic globalization, and the Eurostat obligatorily prescribes it for the member states of the European Union¹⁰.

The comparison of the GNI and the GDP indicates the economic weight and main components of the primary incomes created by the foreign direct capital in Hungary, and the counterpart, i.e. the impact of Hungarian-owned capital (operating abroad) on the total income. (The employee income and the owner income represent the two major forms of the primary income.) Until now the role of incomes deriving from the ownership is decisive, while the sum of the balance of

employee incomes, compared to the former item, is not significant.

During the recent years the capital movement has become two-directional, along with the foreign direct capital flowing to Hungary foreign investments of Hungarian-owned capital also emerged. Nevertheless, the balance of the capital movements indicates invariably the dominance of the foreign capital, reflected also in the evolution of capital incomes. First of all this fact explains that the value of the GNI (at current prices) was by some 5% smaller in 2002–2004 than that of the GDP. The Hungarian Central Statistical Office has not yet released the GNI indicator for 2005, however, a significant change in GNI/GDP ratio is not probable according to preliminary GDP and current account data.

The difference between these macro-indicators cannot be regarded as striking in

GDP and GNI

(at current prices, billion HUF)

Denomination	2002	2003	2004
GDP	16,915	18,651	20,429
Balance of compensation of employees	37	35	32
Balance of property income	-956	-955	-1,243
Of which: interest and dividend payments	-500	-510	-794
reinvested earnings	-456	-445	-449
Balance of EU taxes and subsidies			61
Overall correction	-919	-920	-1,150
GNI	15,996	17,731	19,278
GNI as % of GDP	94.6	95.1	94.4

¹⁰Payments of the EU member states are partly linked to this indicator.

international comparison. In 2004 the GNI/GDP ratio was 94.1% in the ten new member states of the European Union. Among these states rather considerable differences can be observed in the group of Visegrád countries (the ratio amounted to 95.1, 91.3 and 99% respectively in the Czech Republic, Poland and Slovakia) In the old member states (EU-15) the value of the GNI and the GDP at current prices practically coincided in 2004, however, there are great differences behind the average. The ratio was the lowest (84.6%) in Ireland, indicating that the foreign direct capital greatly affects the national income of the country.

A certain portion of incomes deriving from the ownership, i.e. the balance of the paid, received interest, and dividends, leaves the Hungarian economy, while another portion – the **reinvested income** – remains in Hungary. Though the latter portion does not cross the country border, it does not represent a part of the Hungarian GNI, since it adds to the foreign ownership. The **sum** of the reinvested incomes has remained practically unchanged in the recent years, however, its **share** in the total capital income slightly declined in 2003 (from 48 to 47%), and it considerably decreased in 2004 (by 10 percentage points) on the previous year. The growth of the negative balance of interest and dividend payments explains the moderation of the weight of the reinvested income.

The gross national income rose by 3.9% in 2003 on the previous year, its growth rate exceeded by 0.5 percentage point that of the gross domestic product. Between the two macro-indicators a growth rate difference of 0.7% emerged in 2004 for the favour of the GDP, i.e. the GDP rose by 5.2%, while the GNI expanded by 4.5%.

Ownership relations in the economy

During the years following the change of regime proportions within the ownership system of the national economy evolved relatively rapidly, featuring Hungary since then. The share of the private ownership in the gross value added reached 70% in 1996, and it is on approximately the same level nowadays, with a 21–22% portion of the foreign ownership. (Registration of owners of enterprises takes place on the basis of majority share principle.)

In 2004 the **public sector** had a share of 29.2% in the gross value added in the national economy. There was a decline of 1 percentage point over the figure in the previous year, partly due to the fact that in 2004 earnings of employees in the budgetary institutions increased rather modestly compared to the previous two years; so the growth of value added by the public sector declined. Among the branches the role of the public ownership is absolute only in the public administration. In 2004 in the field of electricity, gas, steam and water supply the role of the state decreased for the favour of the domestic private capital, however, its share remained 82%. The private capital emerged also in the education and health, but the weight of the public sector has been practically unchanged (84 and 70%) since the millennium turn. The economic weight of the public ownership is declining in transport, storage and communication, and it is rising in the financial intermediation (in 2004 the contribution of the public sector to the value added of these branches was 41 and 33% respectively).

The share of the **enterprises in foreign ownership** in the gross value added increased during the second half of the

Distribution of gross value added by sectors of ownership

(at current prices, %)

Section	2000 ^a	2001 ^a	2002 ^a	2003	2004
Public	28.4	27.4	29.0	30.1	29.2
National private	49.6	50.5	48.8	47.3	49.5
Foreign	22.0	22.1	22.3	22.6	21.3

^a FISIM (Financial International Services Indirectly Measured) not allocated to user sectors.

nineties, fluctuating around the attained 22 percentile level since then. The role of the foreign ownership is the greatest in the manufacturing despite the fact that in 2004 this weight declined perceptibly from 58 to 53%. The share of the foreign enterprises is significant (around one third) in the wholesale and retail trade, repair, and in the financial intermediation.

The domestic private sector is the greatest owner in eight branches among the 14 ones, its role is decisive (above 90%) especially in the agriculture and the construction. The share of the domestic private capital is definitely high in the real estate, renting and business activities (82%), hotels and restaurants (72%) and in wholesale and retail trade, repair (67%).

Structure of the economy by sector

Simultaneously with the evolution of the market economy the branch structure of the Hungarian national economy – regarded on the basis of the contribution of branches to the value added – has become similar to that in the advanced countries already during the first half of the nineties. Since then mainly the business fluctuations of the individual branches, and the adjustment to the domestic and external circum-

stances affect the changes and the convergence to the western European proportions.

The decline of the **agriculture** represents one of the decisive trends of the alterations in the branch structure. The weight of the agriculture in the gross value added declined by 2003 to 3.3% from 6–7% ten years before. Share of the agriculture's performance in the gross value added is also gradually diminishing in the EU-25, representing 1.9% in 2005. As a result of the extraordinarily favourable crop results in Hungary in 2004, the value added of the agriculture expanded by 57%, and its share increased to 3.9%. A good harvest featured 2005 as well, so the economic weight of the agriculture presumably remained above the average of the previous years. Within the gross production value of the agriculture the output of the crop production is higher than that of the animal husbandry. The share of the former was 50–56% in the first years of the new millennium. In 2004, as a result of the record harvest the share of the crop production rose to 64%, while in 2005, in spite of some decline, it was high, remaining on a 60 percentile level.

In 2004, 25.8% of the value added was generated in the **industrial** sector.

Economic importance of the industry is accentuated by its decisive weight in exports, as well as by the fact that the industry represented a driving force during 2003–2005, namely its value added rose at a higher rate than the GDP in the concerned years. The contribution of the industry to the total value added increased during the second half of the nineties, its peak was attained at 27.9% in 2000. The driving sub-branches of the manufacturing are the machinery manufacturing ones, providing half of the output and two thirds of exports. According to 2004 data, the contribution of the Hungarian industry to the total value added of the national economy was the eighth highest among the member states of the European Union. On the average of the EU-25 the weight of the industry has been 20.5% invariably during the recent three years, however, this weight indicates a slightly declining trend in a longer run.

The share of the **construction** in the value added fluctuates within a narrow band. Following a slump in 1996 (4.3%) it was continuously rising to 5.3% up to 2002,

then it was 5.0% in 2004. Regarding 2005 some growth can be expected, namely the value added of the construction rose by 14% as a result of the prosperity kept alive by the road network development. A fluctuation can be observed in the European Union as well, where the construction's weight has been increasing since 1998, it was 6% in 2005.

The share of the **services** branches in the value added changes between 61 and 66% in Hungary. Its highest value was attained in 2003, in 2004 it was 65% (these branches had a share of 63% in the employment in 2005). The growth of the services' weight stopped in 2003 in the European Union, it has been 71.5% since then. The decline of the share of services in the gross value added during the last two years in Hungary concerned all three major branches. The financial intermediation and the real estate, renting and business activities represented 20.6% of the gross domestic product in 2004, while the share of the wholesale and retail trade, repair, transport and communication was 20.7%. In the financial branches the mentioned share corresponds to the average of

Distribution of value added by sectors

(at current prices)							
Sector	Hungary					EU-25	10 new member states
	2000	2001	2002	2003	2004		
Agriculture	4.3	4.3	3.7	3.3	3.9	2.1	4.3
Industry	27.9	26.1	25.0	25.5	25.8	20.5	26.1
Construction	5.2	5.1	5.3	4.9	5.0	6.0	5.9
Services	62.6	64.4	66.0	66.2	65.2	71.5	63.7

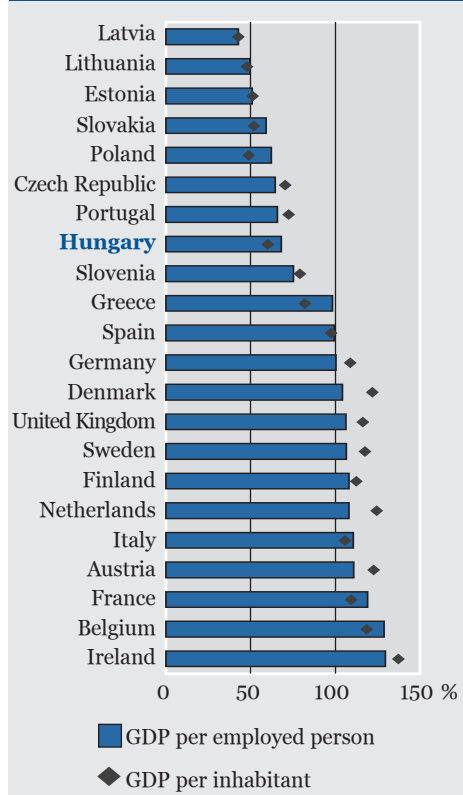
the previous years, while there was a decline in the other services. In the EU-25 the financial intermediation and the real estate activities create 27% of the value added, the other aforesaid fields provide 21.6%. The services branches, providing non-market services, decisively financed by the state (i.e. public administration, education, health) had the highest share (21.0%) in Hungary in 2003. Their weight slightly declined in 2004 on the previous year, reaching 20.4%. According to 2005 volume data a further decrease is probable. The average of the EU-25 has been around 18%, this has been continuously approached by the Hungarian share since the mid-nineties, and has even exceeded it since 2001.

Level of the economic development

The level of the development of the Hungarian economy can be determined in international comparison on the basis of the value of the **per capita GDP measured on purchasing power parity**. The PPP converts the GDP of individual countries into a common currency at a standardized price level.

In Hungary the per capita GDP represented 60.1% of the EU-25 average in 2004, and this value was 59.3% one year before. Hungary has been ranked invariably on the 20th place among the twenty five member states for ten years, preceding Poland (48.8%), Slovakia (53%), and the Baltic states in 2004. The lag behind the Czech Republic (70.3%) and Slovenia (79.1%) increased during 2002–2004, while the advantage before Poland and Slovakia, in essence, did not change. The new member states reach on the average 55% of the EU-25 level.

Level of economic development and productivity, 2004
(at purchasing power parity, as % of EU-average)



Luxembourg invariably is regarded as the most developed state of the European Union on the basis of the per capita GDP (with 239% of the average), followed by Ireland (137%) stepping ahead 10 places during nine years. The following countries are the Netherlands (124%) and Austria (123%). Altogether 12 member states stand above the average, in addition to the aforesaid ones: Denmark, Belgium, Sweden, the United Kingdom, Finland, then three major economies follow (France, Germany and Italy) on the places

10–12. Among the latter countries the advantage of the least developed Italy (105.8%) is still significant before Spain (97.6%) standing on the 13th place. Among the candidate countries Romania and Bulgaria represent 32 and 31% resp. of the EU-25 average.

The value of the produced GDP per employed person is available among the indicators measuring the **productivity** in the member states of the European Union, which is calculated also on PPP for the better comparability. (However, the accuracy of results is decreased by the fact that the part-time and full-time employees are not discerned.) The position of Hungary is similar in this respect. Our country stepped forward one place in 2003, standing on the 18th place since then with 68% of the EU average. Similarly to the other Central and Eastern European countries Hungary is gradually approaching the EU average. In this region only Slovenia (75%) is before Hungary with respect to productivity. The most developed countries can be found on the top of the rank, however their places differ from that in the per capita GDP rank. France and Italy stand on the fourth and sixth place, more forward, behind Luxembourg, Ireland and Belgium leading this list, Austria holds the fifth place. Later follow the northern countries, the United Kingdom, then Germany with the 12th place possessing a productivity identical with the EU average. Spain, Greece, Malta, Slovenia and Cyprus have a productivity below the EU average, but higher than the Hungarian one. In addition to the majority of the Central and Eastern European countries Portugal stands behind Hungary on the list, while the Baltic states are the file-closers.

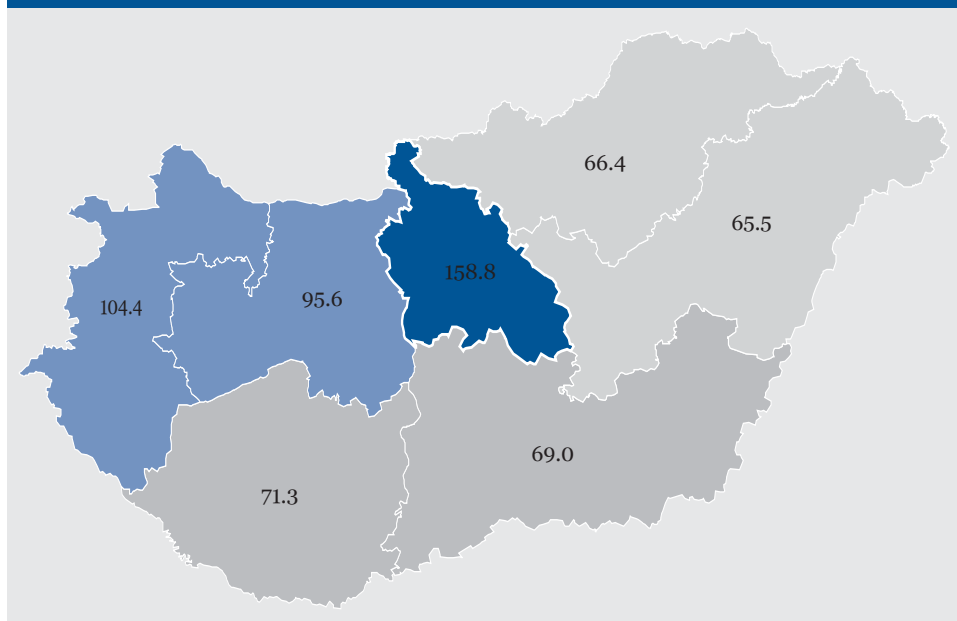
Regional characteristics of the GDP

Among the seven regions Central Hungary, including Budapest has the greatest economic weight. In 2004 nearly half (45%) of the gross domestic product was produced in this region. The three Transdanubian regions represented 28% of the GDP, and similar economic weight (27%) features jointly the two Great Plain regions and Northern Hungary.

The economic development level of the regions is strongly differentiated. Central Hungary is not only the largest, but also the most developed region, where the per capita GDP exceeds by 60% the country average. Western Transdanubia is the second most developed region with its per capita GDP exceeding by 4% the country average. Out of remaining five regions there are none with this indicator reaching the country average. Central Transdanubia's per capita GDP lagged by 4% behind the average, which is the least difference. The economic backwardness is significantly greater in the two regions of the Great Plain and in Northern Hungary, where the 2004 indicator shows a 31–35 percentile shortfall. Within the concerned regions counties Szabolcs-Szatmár-Bereg and Nógrád are the two poorest with indicators of 44 and 46% resp. below the country average.

During the last decade hardly any shift occurred in the economic ranking of the regions. Central Hungary firmly guards its first place; moreover, it increased its advantage against both the average and the least developed region. Western Transdanubia always held the second place throughout the decade, and Central Transdanubia also maintained its third place. The last two places were held alternately by Northern Great Plain and Northern Hungary.

Gross domestic product per capita, as % of national average, 2004



In 2004 there was a 2.4-fold difference between the economically most developed and most backward regions. This ratio hardly changed compared to the preceding years. Nevertheless, going back to the longer period, the difference grew, in the mid-nineties it was 2.1-fold between the two extreme poles.

Investment

The volume of the **gross fixed capital formation**, with a slightly wider content than investments, increased by 6.6% in 2005, at a rate identical with the average of the years following the turn of millennium, i.e. at an extent exceeding the expansion of the GDP, just like in every year of the past decade, excluding 2003. Its share in the GDP was 23.1%, at current prices.

On the average of the **EU-25** the alteration of the gross fixed capital formation indicates considerable fluctuations: it practically stagnated between 2001 and 2003 (years near recession), then it increased by 3 and 2.9% resp. in 2004 and 2005. In the ten new member states a growth of 7% was reached during the past two years. In the background one can find first of all the uplift of the Polish investments, although the highest growth was measured in the Baltic states. A high expansion of 7.2% was observed in the United States, following the 8.4 percentile growth in 2004. The gross fixed capital formation/GDP ratio is 19.8% in the member states of the European Union, the same figure was measured in the United States. In the ranking of the member countries the position of Hungary has not changed, it invariably holds the ninth place

before the majority of the economically more developed countries. However, this indicator is only lower in Lithuania and Poland among the Central and Eastern European countries.

In Hungary the weight of **investments** in the fixed capital formation was 88% in 2005, slightly lower than in the past years, while the investments/GDP ratio was 20.3%, similarly to 2004. At current prices HUF 4.4 trillion was spent on investments in course of 2005. The volume of investments has been increasing continuously since 1996 at a rate exceeding the GDP growth. Following a stopping short in 2003 (with a growth of 1.2%) a lively growth can

be observed again, investments expanded by 9.1% in 2004, while they increased by 6.4% in 2005 according to preliminary data.

The distribution of **investments** by legal form considerably changed at the beginning of the present decade in parallel with the upturn of dwelling construction to the detriment of the enterprise investments for the favour of households' investments (related to other business activities). In 2005 the established proportions already did not change: with the 61 percentile weight of developments by the enterprises, a 13 percentile share of invest-

Investments of the national economy

Industries	2002	2003	2004	2005	
	Previous year = 100.0				Share, % (at current prices)
Agriculture, hunting, forestry, fishing	103.7	113.9	77.3	104.6	4.5
Mining and quarrying	146.9	73.1	141.6	72.7	0.2
Manufacturing	90.7	115.6	115.1	102.4	22.1
Electricity, gas and water supply	106.2	110.1	91.6	86.4	4.6
Construction	104.9	110.3	103.9	113.7	2.0
Trade and repair	110.8	108.7	106.8	111.3	7.6
Hotels and restaurants	117.2	87.5	106.7	112.0	1.0
Transport, storage and communication	102.7	94.0	131.9	132.7	18.2
Financial intermediation	90.1	114.7	116.2	115.5	1.5
Real estate, renting and business activities	115.0	109.2	111.4	98.4	26.3
Public administration and defence, compulsory social security	138.5	65.9	89.9	98.9	3.8
Education	122.0	88.6	89.8	115.6	2.0
Health and social work	142.8	89.2	88.5	101.4	1.6
Other community, social and personal service activities	121.4	95.4	117.4	111.1	4.6

ments financed by the budgetary organizations, and a 26 percentile portion of the investments related to other business activities.

During 2001–2003 a considerable difference was observed, with changing signs, between the dynamism of the construction and machinery investments, however, a more equalized growth occurred in the last two years. In 2005 the stopping short of dwelling construction and the outstanding growth of road construction affected the change of the construction investment in opposite directions, as a result, the latter investments on the whole increased by 7.7%, at a more moderate rate than in 2004. The growth of the machinery investments also slowed down, from 7.8 to 5.2%, namely the diminishing demand for the manufacturing production was only partially offset by other branches. Within the machinery investments those manufactured domestically rose by 4%, while in imported machinery by 6%. In total investment the share of construction activities rose to 58%, that is, the upward trend, observed in the former years, continued. Within the 41 percentile share of the machinery investments, the portion of the domestically manufactured machinery is slightly higher (21%).

It deserves attention that while the three branches with the greatest investment activity (jointly possessing a weight of two thirds) considerably increased their developments in the previous year, in 2005 the growth stopped short in two of them. On the contrary, medium-size branches and branches of smaller weight performed more lively investment activities. Since the millennium turn the real estate, renting

and business activities (including also dwelling constructions), representing 26% of the total investment, has been counted as driving force of investments. However, in 2005 this branch had to suffer a decline of 1.6% in parallel with the evolution of the number of constructed dwellings. The manufacturing with its 22 percentile weight indicated a high growth rate (on the average 15%) during the former two years, while only 2.4% in 2005. Among the branches with investments of great value only transport, storage and communication, possessing a 18 percentile share, could reach a growth of 33%, similarly to 2004, mainly due to the continuing public road development activities.

Foreign direct capital

Total foreign direct capital stock of the world¹¹ expanded by 12% in 2003, during the next year it increased by 8%, attaining 8.9 trillion dollars at the end of 2004. Regarding the recipient countries, the capital movement to the developed countries was faster, so their share increased, approaching 73%, while that of the developing countries diminished to one quarter of the total foreign direct capital. (The latter share exceeded one third in 2000.) Among the developed countries the rate of capital inflow into the EU member states exceeded the average, it was 15% in 2003–2004. Within the EU the foreign direct capital stock increased by some one third in the newly acceded 10 countries during 2004, amounting to 230 billion dollars at the end of this year. Over 26–26% of this sum flew into Poland and Hungary, while some 25% into the Czech Republic.

¹¹ World Investment Report, United Nations, New York and Geneva, 2004.

The fourth country is Slovakia with 6%, and the remaining six countries jointly had a share of 16%. Hungary's share is 0.7% in the world total capital imports, similar to that of Austria, Portugal and Poland among the EU member states.

Nearly 89% of the world foreign direct capital stock, regarding the capital exporters, derives from the developed countries (60% from the European Union, while some 30% from North America). Share of the developing and other countries in the total capital exports exceeds 10%, 64% of which derived from Asia.

Foreign direct capital stock, operating in Hungary, expanded by 24 and 14% on the previous year in 2003 and 2004 respectively, amounting to HUF 9.9 trillion. Two thirds of the foreign direct capital derived from three countries at the end of 2004: Germany (33%), the Netherlands (20%), Austria (13%). The United States and France, formerly standing on the fourth and fifth place, changed their position, in 2004 the share of France exceeded 5%, while that of the United States was 5%.

In 2004, among the **enterprises with corporation tax return**, the number of enterprises operating partly or on the whole in framework of foreign property approached 26,500. 68% of them was exclusively in foreign property, 18% belonged to majority foreign property, and the rest (14%) were owned in framework of the majority domestic property. The share in the own capital indicated different proportions: 37, 41 and 22% respectively. This indicates that the enterprises operating exclusively in framework of foreign property possess a smaller capital power. Within the own capital 95% of the foreign direct investment was distributed nearly equally between the exclusively foreign owned

enterprises and those with foreign majority property, while the rest (5%) of the foreign direct capital went into enterprises operating in framework of domestic majority property.

The concentration of the invested foreign direct capital in Central Hungary (on the basis of the headquarters of the enterprises), following a decline in the former years, rose again in 2004, and approached to 64%. Western Transdanubia stands on the second place with a share of 12%, followed by Central Transdanubia with 10%. The sum of the foreign direct capital decreased nominally as well in Southern Transdanubia and Northern Hungary, so their share was only 1.5% and 4.2% respectively. Along with a more modest growth than the average the share of the Northern and Southern Great Plain slightly diminished or has not changed.

The distribution of foreign direct investments by branch does not indicate considerable shifts. These investments possess the greatest share (over 44%) in the manufacturing, followed by real estate, renting and business activities with a share of 17%. The concerned share is equally around 10% in the financial intermediation and in transport, storage and communication. The lowest share can be observed in mining and quarrying (0.1%), as well as in agriculture, hunting, forestry and fishing.

The number of employees in the **foreign-held enterprises** rose by 5.8% in 2004 over the previous year, exceeding 575 thousand. At the same time gross average earnings increased by 6.1%, so exceeding the national economy average by 41%, to an identical extent than in the previous year. Net sales income of these enterprises was by some 15% higher than in the former year. After-tax profits rose by 30%. The

sum of dividends increased by some 28%, while that of the reinvested income rose by 18%.

The share of the foreign-held enterprises in the external trade turnover is invariably high, three quarters in imports, and 76% in exports in 2004. 71% of their imports derived from the European Union, while over 82% of their exports was destined there. Germany was invariably the most significant partner, followed by Austria. Machinery and transport equipment represented 57% of imports from EU-25, and they had a share of 69% in exports to EU-25.

The stock of the capital invested by the Hungarian entrepreneurs abroad rose by 50% in 2004 over the previous year, amounting to HUF 1 trillion. 40% of the

invested capital went to Slovakia, and equally nearly 9–9% arrived in the Netherlands, Croatia and Macedonia. Capital exports to Poland rose significantly, its share exceeded 7% at the end of 2004. There occurred considerable changes in the distribution by branch over 2003: share of manufacturing, within this that of manufacture of coke, refined petroleum products and nuclear fuel increased to 53 and 44% respectively. At the same time the concerned share declined in financial intermediation (to 26%), and in wholesale and retail trade, repair (to 12%). After-tax profits and dividend of the Hungarian capital operating abroad increased to HUF 126 and 86 billion respectively, these sums are five and 3.3 times higher than one year before.

Economic equilibrium

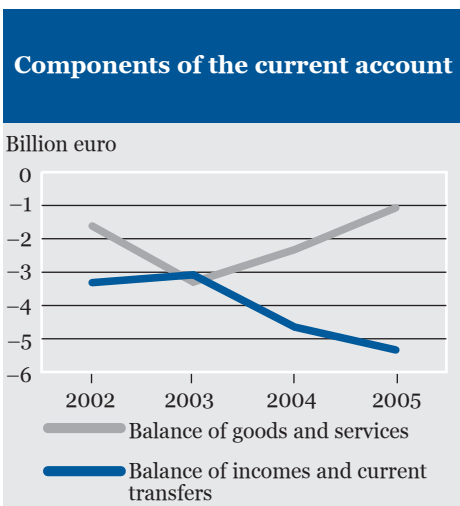
Balance of payments, foreign debt*

The **deficit of the current account** increased considerably in 2003 over the previous year, it rose by EUR 1.5 billion to EUR 6.4 billion. In 2004, along with a more moderate rise than in the previous year the deficit amounted to EUR 7 billion. In 2005 the current account deficit was by EUR 0.6 billion lower than in the previous year, amounting to EUR 6.4 billion, representing 7.3% of the GDP. In the same year on the average of EU-25, unlike the former years, a deficit emerged also in the euro-zone.

In 2004 and 2005 the evolution of the current account was determined by the improving balance of the transactions in the real economy and by the deteriorating position of the income and transfer account.

Within the **account of the transactions in the real economy** the import surplus in the merchandise turnover was decreasing continuously in course of the last two years, on the whole it was by EUR 1.3 billion smaller than in 2003. The decline was more significant in 2005. Exports expanded faster than imports in both years. The balance of services, following a deficit in 2003, attained a surplus in 2004–2005. Within this the credit surplus deriving from travel, following a decline in 2003, further diminished in 2004, then in 2005 there was a growth of over EUR 120 million, so credit exceeded debit by EUR 1.1 billion. Deficit of other services (excluding travel) decreased by EUR some 0.9 billion, followed by a further decline of EUR 0.3 billion in 2005, its sum amounted to EUR 0.6 billion. Fast growth of credit (by 32%) was a determinant factor in the decline in 2004. The growth of credit was faster than that of debit in 2005, too, however, the difference between the two rates lessened. Credit from construction and installation, personal, cultural and entertainment services exceeded debit in both years, while in case of other services the sum of debit was higher.

Net outflow of **income** was more moderate in 2003 than in the previous year, then it exceeded that in the former year by one third in 2004, and by some 14% in 2005. The growth affected the individual components diversely. Outflow of interest-type, debt-related net incomes, on the whole doubled during the last two years, especially in 2004. Its sum exceeded EUR 1.6 billion in 2005. Net outflow of non-



*Source of data is the National Bank of Hungary.

debt-related, dividend, distributed and reinvested income rose at a more moderate rate than the former component (by 35%) during two years. As a result, its share within the total income outflow altered from 80% in 2002 to around 70% in 2005. In 2004 the growing outflow of the debt-related income was caused by the rise of government securities' stock (within them the increase of the stock of foreign-owned securities, denominated in forint), as well as by the increasing interest payments related with other capital movements within the capital investments abroad. In 2005 the interest expenditures on bonds rose at a more moderate rate than in the previous year, at the same time the interest expenditures on other investments increased by 60% over 2004 due to the growing loan taking by the private sector. Surplus deriving from remuneration of persons employed abroad up to one year is diminishing year by year, it amounted to EUR 102 million in 2005.

Surplus of current transfers decreased by more than 50% over the previous year in 2004, while it diminished by 10% in 2005. On the one hand it was caused by the fact that the surplus of the former years was replaced by a deficit in the general government sector, and, on the other hand the surplus of the other sectors diminished. The former phenomenon derived from the fact that the Hungarian contribution to the EU budget is accounted here as current transfer.

The **capital account**, against a deficit of EUR 32 million in 2003, indicated surpluses of EUR 260 and 712 million in 2004 and 2005 respectively. EU sources for domestic development projects, investments are also accounted within this item in the general government sector. Joint

position of the capital account and of the current account determines the need for external finances, amounting to EUR 6.7 billion and 5.7 billion in 2004 and 2005 respectively.

The **non-debt-generating sources** indicated a net outflow of EUR 11 million in 2003, replaced by a net inflow of EUR 3.3 billion in 2004. This reflected the fact that foreign direct investments in Hungary increased over the previous year by a factor of 2.9 to EUR 3.3 billion. At the same time, such investments by Hungarians abroad diminished by 40% to EUR 0.8 billion. Shares and other items within the portfolio investments added to this position, indicating a net inflow of EUR 0.8 billion. **In 2005 foreign direct investments in Hungary** rose by over 50% to EUR 5.1 billion even on the high base in 2004. Foreign direct investments by Hungarians abroad increased similarly, exceeding EUR 1.2 billion. The balance of the aforesaid two items was moderated by the fact that the surplus of the portfolio investments during the previous year turned into a deficit of EUR 260 million. As a result, the non-debt-generating sources exceeded EUR 3.6 billion in 2005, covering some two thirds of the external financing need, this proportion was higher than in 2004.

Gross **foreign debt** of Hungary rose at a rate exceeding 19% equally in 2004 and 2005, the increment amounted to EUR 20.4 billion during two years. Gross debt was EUR 68 billion at the end of December 2005. Two thirds of the increment emerged in the private sector, while the rest affected the general government sector and the National Bank of Hungary. During the same period the assets increased by EUR 11.5 billion to 37.7 billion. Two fifths were represented by the international reserves at

the end of 2005, their growth was of a significant extent especially in 2005, exceeding EUR 4 billion. Net debt stock of the Hungarian national economy, as a consequence of the abovementioned two factors, rose by 24 and 14% in 2004 and 2005 respectively. Its sum totalled EUR 30.3 billion at the end of 2005, representing 34.5% of the GDP. In 2004 within the net debt stock the growth of the joint debt of the general government and the National Bank of Hungary was faster than the debt growth of the private sector. In 2005 the growth of the latter item exceeded the growth of the country's debt, after the debt of the general government and of the National Bank of Hungary declined by EUR 1.3 billion, i.e. by 11%. So their joint share in the net debt diminished by some 10 percentage points, to 34.5% compared to that in the previous year. Within the private sector, especially in 2005, loan takings by the monetary institutions (commercial banks, specialized and co-operative credit institutions, dwelling savings banks) increased at a fast rate.

The **non-debt type liability** of the national economy (joint stock of the capital investments and securities embodying ownership rights) amounted to EUR 50.6 billion at the end of 2005, deriving from foreign direct investment in Hungary of EUR 57.2 billion and foreign investment by Hungarians abroad of EUR 6.6 billion. One year before net stock of non-debt type liability amounted to EUR 43.9 billion.

Total foreign liability (including debt and non-debt type debit) represented EUR 125.2 billion at the end of 2005 with assets of EUR 44.3 billion and net foreign liability of EUR 80.9 billion. The total foreign liability/GDP ratio was 92.1% at the end of 2005, by some 5 percentage points higher than one year before. Within the liability the

growth of the non-debt type debits was faster, exceeding a rate of 15%.

External trade

The **growth of the external trade merchandise turnover**, following 2000 (with outstandingly high dynamics) was the fastest in 2004, then it slowed down in 2005, however it remained significant. Some of the factors shaping the external trade in 2004–2005 were related with the EU accession. Though these factors affected first of all the processes taking place within the year, their impact cannot be neglected on annual level. During the months around the accession there was a non-recurring import turnover with a relatively great value due to the prepurchases before the EU accession in May 2004, and then to „domestication” of the merchandise deriving from the EU and stored in the customs warehouses (accounting of the so-called transitory items); at the same time it meant an outstanding base level for the same period in 2005. The relatively high import volume dynamics in entire 2004 (15% over 2003), and the low one in 2005 (5% over 2004) can be partly explained with the aforesaid fact. During the same years exports expanded by 18 and 11%. Exports were affected by these circumstances to a lesser extent and with an opposite sign. That is the export growth slowed down more moderately and it exceeded the growth of imports in both years. (The export dynamics exceeding the growth of imports more or less generally featured the entire post-millennium period, excluding 2003.)

The **external trade balance**, following a considerable deterioration in 2003, significantly improved in 2004–2005. This

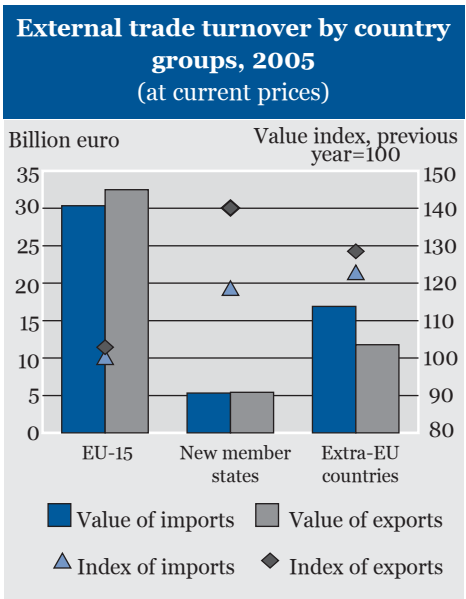
improvement occurred despite the fact that the advantageous impact of the volume processes was weakened by the deterioration of terms of trade, which was already greater in 2004 than formerly, and especially intensified in 2005. The sum of the deficit in the external trade balance diminished from EUR 4.2 billion in 2003 to 3.9 and 2.8 billion in 2004 and 2005 respectively. Since the smaller and smaller deficit evolved along with the more and more exports, the relative deficit indicates an even stronger equilibrium improvement: the 2003 deficit corresponded to 10.9% of exports, this ratio declined to 8.8 in 2004 and to 5.7% 2005.

According to Eurostat data the turnover of the member states of the **European Union** among each other expanded by 6% (at current prices) in 2005 over the previous year, exceeding EUR 2.1 trillion. In the relation with the countries outside the EU a more significant growth is to be observed again: imports rose by 14%, exports increased by 10%, representing EUR 1.2 and 1.1 billion respectively. The balance in this relation indicates a deficit of EUR 106 billion, exceeding by two thirds that one year before. Import dynamics higher than those of exports and so the growth of the balance deficit were first of all in connection with the energy turnover. The concerned products represented one fifth of total imports, and three fifths of the import increment, thus the deficit rose by EUR 70 billion to EUR 220 billion. The surplus in the turnover of manufacturing products (machinery, transport equipment, chemicals and other processed goods), rising by some EUR 20 billion and amounting to nearly EUR 150 billion, could offset only an essentially smaller fraction of the aforesaid deficit than in the previous year.

Regarding the intra-EU and extra-EU trade of the individual member states together, nine countries out of the ten ones acceding in 2004 increased their turnover strongly, at a greater extent than the old member states. Among the former countries dynamics of the Hungarian external trade is the lowest (euro terms exports and imports expanded by 11 and 8% respectively over the previous year). The external trade balance indicates a surplus only in one new member state (the Czech Republic), while there is a deficit in the remaining countries; among the old member states 7 possessed a surplus, 8 suffered a deficit. Thus there emerged a deficit in the external trade balance in 17 countries. Regarding the deficit/exports ratio we can observe different proportions. The Hungarian indicator (the relative deficit of 5.7%) is one of the lowest. The indicator is similar in Slovenia, only Italian and Austrian ratios are smaller. At the other pole we find Greece and Cyprus, their deficit is 2.1 and 3.5 times higher than their exports respectively.

The external trade turnover of **Hungary** with the group of newly acceded countries increased at an outstanding rate in 2005, similarly to the previous (adhesion) year. In 2005 the value of exports and imports (in euro terms) exceeded by 40 and 19% respectively those one year before. At the same time the share of this country group also rose by 1–2 percentage points, representing about one tenth on both sides of the turnover. Hungarian exports to the old member states indicates an essentially more moderate (3%) growth, while imports from there remained on the level of the previous year. Thus, regarding the entire European Union, Hungary's exports rose by 7%, while imports expanded by 2.5%,

representing 76 and 68% respectively in the total external trade turnover. The turnover with the extra-EU country group expanded also vigorously, in euro terms exports and imports increased by 29 and 23% respectively in 2005 over the previous year. In this relation the 31 percentile growth of exports to extra-EU European countries and the 26 percentile expansion of imports from Asian countries deserve attention.



The commodity structure of the external trade turnover, established in a longer run, was not affected by the processes taking place in 2005. Nevertheless, the turnover at some main commodity groups evolved differently from the former trend. The most marked alteration was observed in the greatest and the group most sensitive to booms and slowdowns (**machinery and transport equipment**). Namely, almost in every year machinery exports and imports expanded mostly essentially faster than the average growth, however, the

growth rate was similar or more moderate in 2005. The volume of exports rose by 11%, and that of imports (backing exports to a significant extent) exceeded by 4% that in the previous year. In both sides of the turnover the growth was far greater in relation with the new member states and the extra-EU countries, while exports expanded only by 1% and imports diminished by 5% in relation with EU-15, representing the main sales and purchasing market for Hungary. The adverse turnover dynamism refer also to the transformation of the market structure. Among the determining machinery groups an essentially higher export value was realized than one year before in case of energy manufacturing machinery, electrical equipments, public road transport machinery, business machines and data processing equipment. These four groups jointly represented over six tenths of the total machinery exports.

In the group of the **manufactured goods** Hungarian exports significantly expanded also in 2005, following a decline in 2003 and a recovery in 2004. Its volume exceeded by 11% that one year before. At the same time, the growth of imports slowed down compared to the dynamics in the preceding two years, attaining 3%. Within the wide-range commodity scale the expansion of the external trade of medicines and pharmaceutical products continued also in 2005, and the value of professional, scientific and controlling instruments strongly increased in both sides of the turnover. The external trade of textile yarns and fabrics, clothing articles and clothing supplements diminished.

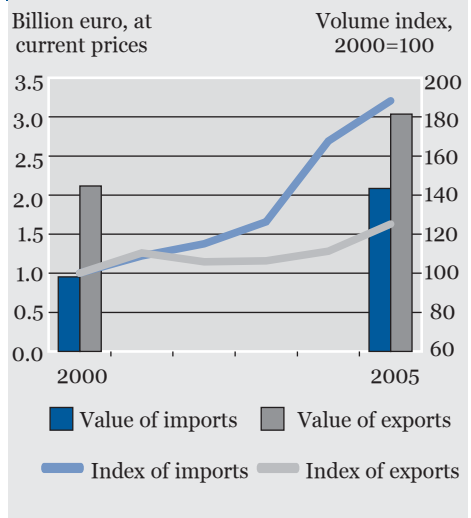
The largest growth occurred in the turnover of **energy** in 2005, i.e. in the main commodity group where the price rise was also outstanding. The volume of

imports exceeded by 17% that in 2004, the value was by 50% higher. (In the uplift, following the stagnation in the previous year, the fact played a role that a large quantity of imports of crude oil shifted from December 2004 to January 2005.) Among the two decisive product groups the value of the crude oil and refined products (with a share of 52%) increased more significantly, while that of natural and artificial gas (with a share of 38%) rose to a lesser extent, but also strongly. As a result of the abovementioned processes the share of energy in the value of imports rose, attaining 10% from 7–8% featuring the former post-millennium years. Energy exports, significantly backed by imports and composed decisively by refined products, expanded also to a great extent, exceeding even the import growth rate. Its volume and value were by 20% and 60% higher than one year before, however the value represented only one quarter of import value. Their balance indicates an EUR 4 billion import surplus, a sum by over EUR 1.3 billion larger than in 2004. This amount strongly weakened the external trade balance improving effect of the diminishing deficit or the increasing surplus of the other four main commodity groups.

In the group of **food, beverages and tobacco** the export volume declined in 2002, it did not recover in 2003, then slightly rose in 2004. These exports expanded more significantly in 2005, exceeding by 12.5% those one year before. The growth was the fastest in the markets of the new member states of the European Union, however the dynamics of exports to the old member states lagged behind not to a great extent. On the whole, Hungarian exports of agrarian products to the EU expanded by 15%, at a rate similar to that in

2004, while such exports to the extra-EU countries rose by 6% over the low base level due to the 13 percentile decline in 2004. In 2005 the volume of the agrarian imports increased by some 12%, similarly to the export expansion rate. Though this growth rate is rather smaller than the extraordinarily high rate in 2004, however, it implies the continuation of the trend in the post-millennium years, and even to the acceleration of the growth. The uplift of the agrarian deliveries from the new member states of the European Union played an outstanding role in the processes during the recent two years, and imports of these products from the old member states also expanded dynamically. In 2004 imports of the agrarian products increased by 45% from the entire European Union, there was a 19 percentile further expansion in 2005, while such imports from the extra-EU countries declined by 7 and then by another 24%.

External trade of food, beverages and tobacco



The external trade of the smallest main commodity group, i.e. **raw materials**, representing some 2% of the turnover, indicated an upward trend in the recent years, in 2005 the volume of their exports and imports exceeded by 6 and 3% respectively that one year before.

General government and its sub-systems*

The balance of the general government, in accordance with ESA'95 and the prescription fixed in the Maastricht criterion, and modified with the impact of private pension funds, indicated a deficit of 5.4% of the GDP in 2004, climbing to 6.1% in 2005. (Accounting of private pension funds within the general government decreased by 1.2 and 1.4 percentage points the deficit of the general government related to the GDP in 2004 and 2005 respectively.) In 2003 the deficit in the EU-25 and on the average of the euro-zone reached the upper limit, fixed in the Maastricht criterion, i.e. 3% of the GDP. Later on the deficit lessened at a faster rate in EU-25 and at a slightly slower rate in the euro zone indicating values of 2.3 and 2.4% in 2005. (This indicator was 4.4% in the United States of America and 6.5% in Japan in 2004.) We can find remarkable differences behind the average of the EU member states: a surplus emerged in eight countries, and there was a deficit in the remaining countries; out of which the concerned indicator exceeded 3% in seven ones. The greatest general government surplus was measured in Denmark (4.9%), followed by Sweden (2.9%) and Finland (2.6%). The greatest deficit evolved in Hungary, followed by Portugal (6%), Greece (4.5%), Italy (4.1%) and the United

Kingdom (3.6%) with indicators of. In Germany the deficit has been declining since 2003, reaching 3.3% in 2005. In case of France this indicator was 2.9%. Among the newly acceded ten countries the general government of Estonia and Latvia possessed a surplus, while that of the remaining countries had a deficit.

The 2002 (cash-flow basis) deficit of the **general government** (HUF 1.7 trillion), which was strikingly high because of the extraordinary government expenditures and the debt assumptions, lessened to 1.1 trillion in 2003. In 2004 the deficit exceeded again that one year before, amounting to HUF 1.3 trillion. In 2005 the deficit declined to HUF 1 trillion, i.e. 4.7% of the GDP. During the former years the balance of the central government largely determined the evolution of the general government deficit, however, during the last three years the deficit emerging and considerably increasing in the social security funds also affected the deficit to a great extent. The aforesaid two subsystems of the general government contributed to the deficit already nearly equally in 2005. The deficit was slightly increased by the deficit of local governments and it was somewhat lessened by the surplus of the extrabudgetary funds.

The **revenues of the central government** on cash-flow basis increased more moderately (by 8%) in 2004, while they rose dynamically (by 21%) to HUF 6.5 trillion in 2005. However, the growth rate is only 13%, if we disregard a revenue sum of over HUF 400 billion received for the operation right of the Budapest Ferihegy airport, not emerging in the annual estimate. The greatest share of the central government revenues has been derived from **taxes on consumption** since the early

*Source of data: Ministry of Finance and HCSO-calculation.

nineties. These taxes increased strikingly (by 24%) in 2003 (resulting from lively retail trade turnover and purchases brought forward due to the implemented and expected changes in regulators in connection with the EU accession). Then these taxes rose by 4 in 2004 and by 3% in 2005. In addition to the high base the increased VAT claims after the EU accession also contributed to the slowdown of the growth rate of these tax revenues. In 2005 taxes on consumption provided a revenue of HUF 2.5 trillion, seven tenths of which was represented by VAT, one quarter derived from excises, the rest was revenue from registration taxes. A slightly diminishing portion of the revenues, in 2005 some one fifth (HUF 1.1 trillion) derived from payments of households. Within this item, similarly to the former years, personal income tax represented some nine tenths, while fees and duties had a share of one tenth. Other tax payments with a diminishing sum represented a negligible part of payments of households. The payments of **economic units** approached HUF 850 billion in 2005. Their sum was increasing, while their share within the revenues was declining in the recent years. Regarding the composition of these payments most changes occurred here. Simplified business tax was introduced in 2003, then environment protection fee came into force in 2004, later on in 2005 an extra tax was imposed on credit institutions and financial enterprises, finally energy tax was introduced. Custom and import payments diminished, then following the EU accession they ceased to exist. The greatest portion of the payments of economic units, three fifths in 2005, was represented by the joint sum of corporate taxes and simplified business tax, while one fifth derived from other centralized rev-

enues. The revenues of **central budgetary organizations and chapter administered estimates** increased by 24% in 2004 and by 36% in 2005, at rates exceeding the average growth rate of revenues. The EU supports emerging since 2004 and provided for chapter administered estimates and central investments, as well as the growth of the financial sums taken over also played a role in the abovementioned fact.

Expenditures of the central government rose (at current prices) by 10% in 2004 and by 12% in 2005, and they increased jointly by some 24% during the mentioned two years. Some half of the expenditures, exceeding HUF 7 trillion, HUF 3.3 billion in 2005 was represented by money use of the **central budgetary organizations and chapter administered estimates**. The growth over the previous year (8%) was smaller than in case of total expenditure, however, the individual expenditure items were affected adversely. Professional chapter administered estimates' expenditure rose by 13%, while expenditures of the budgetary organizations expanded by some 6%, finally expenditures of the central investments declined by 23%. The support deriving from the central government for the **subsystems of the general government** rose by over 18% in 2005. The sum of guarantee and contribution to social security funds, representing three tenths of the subsidies, exceeded by some 26% that one year before, while transfers to local governments (representing two thirds) increased by 15%, finally the transfers to extrabudgetary funds rose by 28%. The sum of **family benefits and social subsidies** exceeded by 6% that one year before. Following a dynamic growth in the former

two years, the sum provided from the central government for housing grants rose by 14% in 2005, at a more moderate rate. **Debt service related** expenditures and revenues rose by 3 and 23% respectively, as a result, net debt service burden increased hardly by 1% in 2005, while this figure was 12% one year before.

The contribution to EU budget amounted to HUF 187 billion in 2005, one year before an expenditure of HUF 120 billion burdened the central government. As refund and custom collection cost cover on the basis of the accession treaty the central government received some HUF 49 and 18 billion in 2004 and 2005 respectively. (The latter item represents only a small fraction of the sources arriving from the EU.)

The **deficit of the central government** (on cash-flow basis) increased from HUF 732 billion in 2003 to HUF 905 billion in 2004, then it declined to HUF 545 billion (2.5% of the GDP) in 2005.

The deficit of the **social security funds** (on cash-flow basis) is continuously increasing, amounting to HUF 470 billion in 2005, representing 2.2% of the GDP. Four fifths of the deficit arose in the Health Insurance Fund, while the rest emerged in the Pension Insurance Fund. Revenues of the social security funds (at current prices) rose by some 20% during two years, while their expenditures increased by 22%. Their sum amounted to HUF 3 and 3.5 trillion in 2005. Over four fifths of the revenues derived from charges and contributions, the rest was basically composed of contributions from the central government. Regarding the major expenditure titles, there was no considerable proportion alteration: six tenths of expenditures were devoted for pensions, some three tenths were spent for provisions in kind, and nearly 6%

of expenditures went for monetary allowances (sick pay, child care benefit etc.). In 2005 among the provisions in kind the expenditures for pharmaceutical support, as well as sums spent for pensions rose at rates above the overall growth rate of expenditures (by 21 and 12% respectively). Among the monetary allowances, growth was the smallest (1%) in case of sick pay.

On cash-flow basis the business activities of **local governments**, on the whole, were characterized by balanced management. In 2005 the deficit, emerging in the whole subsystem, probably exceeds that in the previous year (HUF 16.5 billion), however, the deficit is not a remarkable sum. Revenues of the local governments, following a strikingly high growth in 2003, rose to a modest extent both in 2004 and in 2005. The fact that the joint sum of the state contribution and the received share of the personal income tax, representing some half of the revenues of local governments, increased at more modest rates (by 6 and 8%) during the last two years. Out of the two items, the growth of the latter was faster (12%) in 2004, and the growth rate of the state contribution (3%) considerably lagged behind. In 2005 the nominal sum of the received share of the personal income tax also lagged behind that in the previous year, however, the state contribution increased by some 15%. Joint share of the current expenditures and the current supports indicates an upward trend in expenditures of the local governments, at the same time share of sums devoted for development and accumulation declines. This share was around 20% at the beginning of the post-millennium decade, it was 21% in 2002, since then it is continuously diminishing. On the whole, local governments held a position of a net creditor, however,

by late 2005 their deposits exceeded their loan stock only at a rather modest extent (by some HUF 8 billion). One year before deposits represented a sum exceeding by some 40% their loan stock. At the end of 2005 their deposits amounted to HUF 249 billion, some two thirds of them were at-sight and current account deposits, the rest was almost completely fixed up to 1 year maturity. Three quarters of the loan stock of HUF 242 billion were with maturity over 1 year, and and three tenths of them were in foreign exchange.

Late-December account balance of the **extrabudgetary funds** has been indicating a surplus since 2002, exceeding HUF 30 billion in 2005. Some two thirds of this sum emerged in the Central Nuclear Financial Fund, one fifth appeared in the Research and Technology Innovation Fund, while around one sixth in the Labour Market Fund. The Wesselényi Miklós compensation fund related with protection in case of flood and inland waters, as well as National Cultural Fund closed the year with a small surplus.

Gross debt of the central government rose from HUF 10.6 trillion at the end of 2003 to HUF 12.7 trillion by the end of 2005. The sum of the increment of HUF 2.2 trillion during the two years was smaller than the deficit of the general government in 2004–2005. Within the debt stock the share of government securities was ris-

ing year by year, exceeding 94% at the end of 2005. A slightly diminishing portion of the debt (72% at the end of 2005) was in Hungarian currency, while the rest emerged in foreign exchange.

The ratio of the general government debt, on accrual basis (modified by the savings of the private pension funds) and the GDP rose from 57.1% at the end of 2004 to 58.4% by the end of 2005, however, it has not reach the maximum value (60%) laid down in the Maastricht criterion. (Excluding savings of private pension funds the general government debt was higher by 3.1 and 4 percentage points in 2004 and 2005 respectively.) During the recent years this ratio has been of a trend exceeding the mentioned upper limit and rising continuously, it reached 63.4 and 70.8% in 2005 on the average of EU-25 and of the eurozone countries respectively. (The ratio was 63.4% in the United States of America in 2004, and it reached 164% in Japan.) In 16 countries among EU-25 the debt did not reach 60% of the GDP, while it exceeded the limit in the remaining member states. The spread is extremely great among the individual member states, between Estonia, Luxembourg (4.8 and 6.2% resp.) and Italy, Greece (106.4 and 107.5% resp.). Among the newly acceded member states the ratio of eight countries remained below the maximum limit, while it exceeded 70% in Cyprus and Malta.

Prices

Producer and investment prices

During the last three years the **producer price level** of the agricultural products decreased only in 2004 with the greatest crop, it increased in 2003, and in 2005 it remained on the level of the previous year. There was a supply-driven cereals market in the last two years. In 2005 the price of cereals was by 10% lower than in the previous year. The price level of the industrial plants – due to the smaller crop – increased by 2.8%, and that of vegetables rose by 7.6% in course of 2005. Fruit prices increased to the largest extent, along with the by 30% less production than in the previous year the producer price level exceeded by 22% that in the previous year.

The producer price level of live animals increased by 3.1% in 2005, at a lesser rate than in the previous year. In case of the pig for slaughter there was a demand-pull market with a price rise of 5% on annual level. In 2005 the cattle for slaughter (excluding calf) was sold at a price by 19% higher. In addition to the demand-pull market the lag behind the EU prices also played a role in the strong rise of cattle prices. Producers received by 7% less for the poultry for slaughter than in 2004. Consumption declined because of the fear from bird flu.

The demand for animal products did not grow in course of 2005, so prices hardly changed on annual average against the level reached in 2004. The producer price of cow's milk and eggs increased by 2%, that of wool decreased.

The price level of the agricultural inputs decreased by 0.5% in 2005 along with a 0.7

percentile rise of agricultural producer prices. So the value of terms of trade was 101.2, which reflects the fact that the income position of agricultural producers somewhat improved due to alteration in price relations. A similar change occurred in 2000 for the last time.

The **industrial producer prices**, following a 3.5 percentile rise in 2004, increased by 4.3% over the previous year. The acceleration of the price rise can be explained by the increase of forint prices of products sold in external markets. The export prices, against the decline in 2004, rose by 1.3%. The price level of domestic sales increased by 8.4% equally in both years.

The rise of domestic sales prices of industrial products was mostly determined by price increase in energy producing and the main energy-intensive branches. Prices of electricity, gas, steam and water supply, representing a share of some 25% in domestic sales, increased by 14%, at a rate higher than in the previous year. Within this the price level of gas manufacture and distribution rose by 20%, while the price of electric energy increased by 13%. Over the 18 percentile price rise in 2004, prices rose by 29% in petroleum refining, with the background of growth of world prices. There occurred an above average price increase in manufacture of chemicals (10%) and also in the metallurgy (8.6%). In the second largest branch of the domestic sales, i.e. in the food industry prices rose at a more modest rate (1.4%) than in 2004 (6.8%). (The agricultural producer prices, determining the purchasing prices of this branch, increased only by 0.7%). The

export prices of the industrial products (in forint terms) rose in every branch, excluding only one. In petroleum refining and in manufacture of chemicals the price increase was of the greatest rate, 26 and 13% respectively. A price decline occurred in manufacture of electric machinery and optical instrument, representing 43% of exports, where the 3.8 percentile price decrease was slightly higher than the price decline in 2004.

Industrial producer prices rose by 4.5% in the European Union (EU-25), following a price increase of 2.3% in 2004. First of all the 19 percentile price rise in the energy manufacturing branches stood in the background of the acceleration of the price increase. Prices grew by 1–3% in the other branches. The extent of the price growth was 5.2% on the average in the internal market, while it was 2.1% in the extra-EU markets.

Prices of works performed by **construction** organizations, calculated on the basis of costs, rose on the average by 4.2% in 2005 over those in the previous year, at a rate by 0.5 percentage point lesser than in 2004. The rate of price rise slowed down in the first three quarters, then it increased again mainly due to the price rise of petroleum products.

In 2005 **investment prices** increased also moderately like in the preceding years, at a rate lower than in case of consumer prices, the extent of the growth declined to 2.4% from 3.1 in 2004. The trend of several years continued also with regard to the fact that the price rise of construction investments exceeded that of machinery investments. Constructions became by 4.3% more expensive, in case of machinery investments the slow price rise in the previous years was replaced by a 0.3 percentile

decline. The primary cause of this change was the fact that along with the constancy of the price level of the domestic machinery the decrease of the price of imported machinery, lasting since 2002, continued.

External trade prices

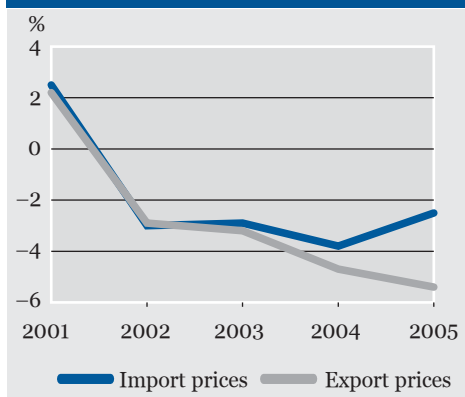
The forint price level of the external trade turnover, as a continuation of the trend in the previous two years, did not change remarkably in 2005, invariably with a relatively moderate movement of foreign exchange price level and of foreign exchange rates. At the same time the price rise accelerated in case of energy, and strengthening of the separation of import and export price movement, i.e the deterioration of terms of trade resulted mostly from this.

The 2005 forint price level of imports exceeded by 1.4% that one year before, while the forint price level of exports lagged by 0.8% behind. The Hungarian currency appreciated by some 1.5% against the major foreign exchanges throughout the year, though it weakened during Q4. So foreign exchange price level of imports and exports indicates a rise of around 3 and 1% respectively. This price evolution resulted in a 2.2 percentile deterioration of terms of trade. For the last time terms of trade deteriorated considerably in 1999–2000 (by over 4% during the two years) also due to more expensive energy imports.

The **forint price level of energy imports** rose by 28% in 2005 over the previous year. (In the preceding two years it increased by 5 and 7% respectively.) Among its main items, crude oil became by 42% more expensive, while price of petroleum products and gas rose by 36 and 28% respectively. Hungarian energy exports occurred also at a higher forint price level,

exceeding by 30% that one year before; its value amounted to EUR 1.3 billion, while the value of energy imports was EUR 5.4 billion. The price evolution of this main commodity group deteriorated by some 1.5 percentage point the terms of trade. The price trend of the largest main commodity group, **machinery and transport equipment**, can be described by the decline of the forint price level since 2002, of the same extent rate in exports and imports; in 2005 these prices were by 2–3% lower than in the previous year. The impact of the **agricultural external trade** on the entire turnover is not too significant due to the small weight of the concerned products. However, it deserves attention that the alteration of export and import prices in 2005 was different to the greatest extent in this main commodity group: the forint export price level only approached that one year before, while the import price level in forint terms was by 2.8% higher than in 2004.

Change in the forint price level of external trade (compared to 2000)



According to the monthly unit value indices released by Eurostat a considerable price rise occurred in the external trade of

the **European Union** as well in course of 2005, the growth of import prices considerably exceeded that of export prices. The resulting deterioration of terms of trade was around 5% on annual level, a nearly 3.5 percentile more unfavourable terms of trade compared to those in 2000.

Consumer prices

Following a 28 percentile rise in 1995, consumer prices were increasing at a smaller and smaller rate in course of eight years, they rose only by 4.7% in 2003. This process stopped in 2004 decisively due to the price rise resulting from VAT rate alteration, but it continued in 2005. The consumer prices increased by 3.6% in 2005, a rate not only smaller than that (6.8%) in the previous year, but also lagging behind the inflation rate of every post-1975 year. In 2005 the price rise was 3.4% in households of economically active people, while it was 3.9% in the pensioners' households.

In 2005 foodstuffs became by 2.5% more expensive, at a much more moderate rate than in 2004 (6.5%). The price level of some product groups (milk, dairy products, eggs and cereals, sweets) slightly declined, and that of other groups rose more moderately than in 2004. The price rise of 3.3% in case of alcoholic beverages and tobacco was by 8 percentage points lower than in the preceding years. The decline of the price rise rate was greater in case of tobacco. Formerly, clothing products became more expensive by 3–4% annually, however, in 2005 their price level hardly altered (rose by 0.2%). The price of consumer durables has been decreasing year by year since 2002. This trend continued in 2005, the price decline rate was 2.3%, somewhat higher than formerly.

Household energy generally becomes more expensive above the average price rise rate. This happened also in 2005, when the price increase (6.2%) was the highest in this group. Nevertheless, it was a considerable rate decline compared to the rise of 14% in the previous year. Unlike in other main groups of consumption, in the group of other goods a price rise of 4.5% occurred, by 0.6 percentage points higher than in the previous year, and higher than the average price rise. This was mainly a consequence of the price rise of two product groups with a relatively large weight: a nearly 10 percentile price rise of fuels and an almost 9 percentile price increase of medicaments.

The price level of services increased above the average rate in the recent years, in 2005 exceeding the average by some 2 percentage points. On the whole the 5.5 percentile price growth resulted among

others from the rise of the urban transport charges (13.7%), of canal toll (13%), of the waste removal fees (12.5%), and of water charges (8.5%), however, most services became more expensive above the average consumer price rise rate.

According to the harmonized data the consumer price level increased by 2.2% on the average in the 25 member states of the European Union. (In the previous year the rate was 2.1%.) The inflation accelerated from 2.7% to 3.4% in the United States of America, the price level declined again in Japan (0.3%). Within the European Union the consumer price level increased by 6.9% in Latvia, the price rise rate was more moderate (0.8-4.1%) in the other member states. In addition to Hungary, the consumer prices rose at rates above the EU average in further ten member states.

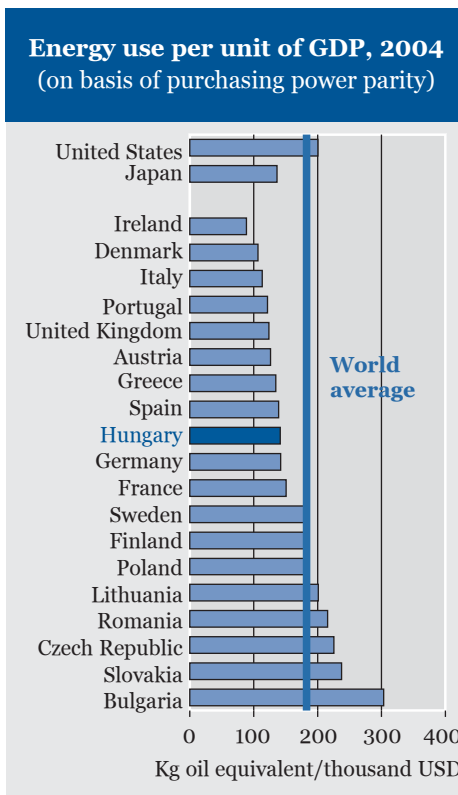
Energy

In Hungary the **energy consumption** fluctuated extremely during the post-millennium years: the annual alternation of maximum 3 percentile growth or 2 percentile decline over the previous year was first of all in connection with the weather. In 2005 the energy consumption amounted to 1,130 Petajoule (PJ), by 3.9% more than one year before; this consumption was greater than in any year during the preceding five-year period. The joint impact of more factors stood in the background of the increased energy consumption in 2005, such as the more unfavourable weather compared to in 2004 and the higher energy intensity of the industry. The increased energy consumption of the industry is related with the growth of the industrial output, within this with the 17 percentile production growth in the manufacture of building materials and with the 7.6 percentile expansion in the output of the chemical industry. In the latter branch the production of oil refining, consuming energy as raw material, and also exporting energy, expanded by 11%.

The energy consumption, over the same month of the previous year, was in every month higher than in 2004, excluding January and April. (The consumption decreased in January, while it was identical in April with that one year before.) Two were summer months among those with the highest consumption growth rate, presumably due to the more and more widespread use of air-conditioning and to the more lively tourism.

The **energy consumption per unit of the GDP** has been improving in every

year since 2000, it decreased by 4.7% in 2004, resulting from the decline of the consumption and from the dynamic economic growth. In 2005 the increase of the energy consumption occurred along with the 4,1 percentile growth of the national economy, thus, although the energy intensity declined in the economy, but at a more moderate rate (by 0.2%) than formerly.



The energy consumption of the **industry** expanded by 4.9% in 2005, at a rate definitely higher than in 2004 (0.6%). Therefore the share of the industry in the

total energy consumption amounted to 34.6%. The growth of the energy consumption of the construction, backed by a lively construction output, was extraordinarily high (over 10%). The household sector has the largest share (38%) in the energy consumption, its energy use rose by 3.7% in 2005, while that of the communal and other consumers, with a share of 19%, expanded by 3.9%. The energy consumption of the agriculture, following a 0.5 percentile rise in 2004, declined by 4.7% in 2005, while it increased by 2.3% in the transport, after a rise of merely 0.2% in 2004.

energy consumption. Exports amounted to 140 PJ in 2005, exceeding by 16% those one year before, and they were by 29% over exports in 2003.

Among the **energy sources** withdrawal of coals into the background continued, their share within the total energy sources diminished from 13% in 2003 to 10% in 2005. The share of crude oil and petroleum products further increased, from 30% in 2003 to 33%, along with the simultaneous decline of the share of the natural gas (from 42 to 39%). Among the electric energy sources the electric energy from the nuclear

Energy consumption

Year	PJ	Change over the previous year, %	Share, %	Change, %	Share, %	Change, %
			of production branches	of household, communal and other consumers		
2000	1,055.1	-2.1	43.9	-0.6	56.1	-3.2
2001	1,087.2	3.0	43.3	1.5	56.7	4.2
2002	1,066.8	-1.9	43.7	-1.1	56.3	-2.5
2003	1,091.6	2.3	42.7	0.0	57.3	4.1
2004	1,088.1	-0.3	43.0	0.5	57.0	-1.0
2005	1,130.0	3.9	43.1	4.0	56.9	3.8

The decline of the **domestic output of** energy sources stopped in 2005, moreover, a small-scale (1.6 percentile) growth occurred due to a 16 percentile increase of the electric energy production in the nuclear power station. Following a decline of 0.2% in imports in 2004, imports of energy sources rose by 10% over those in the previous year. Within the sources covering the domestic energy needs shares of the domestic production and imports changed from 35–65% in 2004 to 33–67% in 2005. During the past two years net imports represented 61 and 64% of the

power station represented 12% in 2005, while the imported electric energy had a share of 1.7%.

The share of the **renewing energy** in consumption of electric energy was 14% in the member states of EU-25 in 2004 with an essentially lower share (5.7%) in the newly acceded 10 countries. This share was 4% in the Czech Republic, 2% in Poland and 2.3% in Hungary. The role of renewing energy sources is especially considerable in Latvia, Slovenia and Slovakia, where their share was 14–17% within the total electric energy consumption.

Performance of major branches

Agriculture

The volume of the **gross production** of the agriculture, following a decline in 2002–2003, increased to quite a great extent (by 22.8%) in 2004, then it decreased in 2005 over the previous year, but it possessed a considerably higher level than in the preceding years. The weather conditions fundamentally determined the performance of the crop production, and so the output of the entire agriculture, too. This is reflected also by really extreme crop results of cereals: the poorest harvest of the recent decades featured 2003, while a record quantity was harvested in the next year. The decline has been continuous in the animal husbandry following 2000.

According to preliminary data in 2005 the gross production reached 89% of that in the previous year. At constant prices the output of the crop production and the animal husbandry lagged by 14 and 7% behind that in 2004.

Among the **crop production and horticultural branches** the greatest (33%) output decline occurred in case of fruits. 16.1 million tons of cereals, representing 49% of the crop production value were harvested, by 650 thousand tons less than in the previous year, however, by 7.4 million tons more than in 2003. 5 million tons of wheat were harvested in 2005, by 930 thousand tons less on a 4% smaller area than in the previous year. Along with the smaller crop the quality of the wheat was poorer, and the share of feed wheat significantly increased compared to previous years.

A record maize crop was harvested in 2005. The harvest of 9 million tons exceeded by 8% that in the previous year, and it was twice as much as in 2003. This record crop on an identical area as in 2004 can be attributed to favourable weather conditions and the record average yield of 7.5 tons per hectare. The outstandingly high cereal crop in the past two years stressed that it is difficult to manage logistically the surplus crop because of the shortage in storage and transport capacities.

In 2005 the cereal crop amounted to 258 million tons in the European Union, which means a decline of 12% over the previous year with an outstanding high crop. (Hungary harvested 6.2% of the total crop in EU-25.)

Among the crops harvested in autumn 1.1 million tons of sunflower seeds was produced, by 7% less than in the previous year; this resulted from the 12% lower average yield (since the cropping area of the sunflower amounted to a record magnitude, 508 thousand hectares). 616 thousand tons of potatoes were harvested, by 21% less than in 2004, from a 14% smaller area. Smaller potatoes crop was not registered during the recent decades. 3.5 million tons of sugar-beet was harvested, equal to that in 2004, on an unchanged cropping area. Wet summer deteriorated the quality in case of these three crops (low oil and sugar content, in case of potatoes the durability decreased).

In addition to industrial plants the gross output of the horticultural products decreased by 23% over 2004. (The decline was of 33% in case of fruits, including

grapes.) According to preliminary data 1.3 million tons of vegetables were produced in 2005, by 34% less than in the previous year. The fruits crop of 729 thousand tons and the grape collection of 489 thousand tons lagged by 30 and 38% behind the respective volumes of 2004. Due to the warm summer weather, excluding the early-ripening species, the sugar-content of grapes was favourable.

In the field of the **animal husbandry** the greatest volume decline (10%) was in the cattle breeding, however, the performance of pig and poultry branches also decreased (by 5–5%). The growth of the sheep breeding in 2004 did not continue during 2005, the production remained on the level of the previous year. The volume of the animal products decreased by 6% in 2005.

In Hungary 708 thousand cattle were kept in December 2005, by 15 thousand (2%) less than one year before. The cow population of 334 thousand was by 11 thousand less than in the same period of 2004. The cattle stock decreased at the private farms, and it remained practically on the level of 2004 in the enterprises. The private farms decreased their cow stock because of the milk market problems. Along with the high quality requirements the producers with the lower quality milk ceased to keep cows. Within the cow stock the beef cattle population increased, while number of dairy cows decreased.

In December of 2005 the pig population numbered 3.9 million, including a sow stock of 277 thousand. The total stock declined by 5%, the number of sows diminished by 6% compared to the same month of 2004. Contradictory processes took place in the pig market during 2005. The supply of pigs considerably decreased despite the feedstuffs prices lower than in

2004 and the higher pig prices. Slaughter houses purchased a certain part of pigs necessary for the production from other EU countries, so imports of live pigs were 3.5 times as high as their exports. The reason for this can be found in the pig prices prevailing in Hungary, exceeding the EU average also in 2005, worsening the competitiveness of the pig husbandry. The pig population of enterprises and private farms decreased by 2 and 10% respectively during one year, with 60% kept at enterprises in 2005.

The sheep population hardly expanded in 2005, with 1.4 million animals kept at the beginning of December, by 8 thousand more than one year before. The enterprises decreased their stock by 2 thousand and private farms enlarged their own by 10 thousand compared to 2004. The gradual market loss of the Hungarian live sheep affects the stock rise negatively.

Livestock population on 1 December

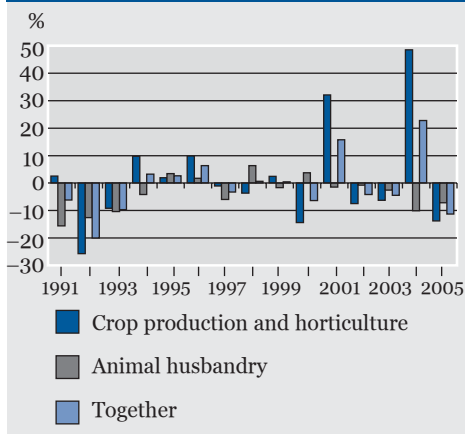
Denomination	2003	2004	2005
	thousand		
Cattle	739	723	708
Pig	4,913	4,059	3,853
Sheep	1,296	1,397	1,405
Poultry ^{a)}	47,268	41,330	41,076

a) Excluding guinea-fowl.

At the end of 2005 the Hungarian poultry stock amounted to 41 million, equal to that one year before. The chicken, hen, cock population decreased by 912 thousand compared to the same time in 2004. In essence, the stock at the enterprises has not changed, the decline occurred at private farms. Private farmers reacted to the more severe keeping conditions and to the sales

difficulties due to the bird flu with diminishing of the population.

Change of the gross production value (on the previous year)



The **slaughter-animal production** (1.3 million tons) was by 8% less in 2005 than in the previous year. (Compared to that two years before the decline is 17%.) The slaughter-pig production, representing 49% of the total production, diminished by 5.4% over 2004, and it equalled to 81% of the production of 2003. The slaughter-cattle production was by 23.5% less in 2005 than in the previous year. This decline can be attributed principally to the fact that producers – because of favourable feed-stuffs price and subsidies – fatten animals for a longer period to reach a higher slaughter weight. The slaughter-poultry production diminished by 9% compared to 2004, while slaughter-sheep production has not changed. Among the animal products, the cow's milk production, representing the largest volume (1.8 billion litres), has basically remained on the level of the previous year, while the production of the hen eggs (3 billion pcs) decreased by 7.6% compared

to 2004. The production of the raw wool increased by 3.3% over 2004, and the honey production (19.7 thousand tons) expanded by 1%.

The **volume of procurement** of the agricultural products increased by 5.9% in 2003, it remained on the attained level in 2004, and in 2005 it lagged by 7.6% behind the level of the previous year. Sales of crop and horticultural products declined by 9.1, while the volume of procurement of live animals and animal products diminished by 5.8%.

Industry, construction

During the recent years in addition to the world economic processes the evolution of the **industrial production** and sales were affected also by the changes influencing the system of regulators in connection with Hungary's accession to the European Union. Following the slow growth observed during the first post-millennium years the industrial production has expanded at similar, rapid rates in every year since 2003 due to the industrial prosperity: it rose by 6.4% in 2003, followed by a growth rate of 7.4% in 2004 and 7.3% in 2005. During the post-millennium years until 2004 the domestic demand for products manufactured in Hungary hardly increased, the growth of export sales represented the driving force of the production expansion. Nevertheless, this trend reversed in 2005, and along with the invariably considerably (by 11%) expanding export sales the volume of the formerly stagnating domestic sales rose by 4.4%. The growth of the production took place along with the decreasing employment, the industrial productivity increased at an extent similar to that in 2004.

The development of the industrial production was not even in course of 2005. The slowdown of the growth rate having started in the second half of 2004 continued in Q1 2005, too, however, a lively growth started in Q2 lasting also in the rest of the year. The revival of the boom within the year is indicated by the fact that following a 2 percentile growth in Q1, the expansion of the volume of the production approached 10%, and its rate was 8–9% in Q3–Q4, too. Unevenness of the production was shown not only in the rate of the growth, but also in the regional and the branch structure of the production, so branch and regional dynamics differentiated further.

In 2005 the output increased in the most **branches**, a decline emerged in five branches with a small weight, excluding food industry and metallurgy. Like in previous years the production expansion of the manufacturing invariably relied upon the manufacture of machinery and chemicals. Out of the strongly export-oriented branches the volume of the production of electric machinery and optical instrument, representing nearly three quarters of the total output, increased by 16%, while that of manufacture of transport equipment rose by 14%. In both branches, along with the 13–16 percentile growth of the export sales having a decisive weight, domestic sales expanded at outstandingly high rates (17–25%), too. In manufacture of machinery and equipment, indicating a stable growth for years, the output expanded by 6.5% due to an 11 percentile uplift of exports. All three chemical industries increased their production: the volume of coke manufacture and oil refining expanded at the highest extent (by 11%), like one year before. The largest chemical industrial

branch, the manufacture of chemicals, with a 7 percentile share in the production, rose by 6.3% in 2005, faster than in the previous year. The growth of domestic and external sales contributed to the expansion in both branches. The manufacture and domestic sales of rubber and plastics increased, sales in external markets did not reach the 2004 level.

In the food industry the decline, lasting since years, continued, the output decreased by 4.4% in 2005, following a 4 percentile decrease in 2004, mainly owing to the diminishing domestic sales in both years. The evolution of the domestic agricultural production, partially providing raw material sources for this industry, already does not determine the production of the food industry, and this situation was not changed by the record crop in 2004. Along with the changed system of regulators following the EU accession, presumably the strong import competition also played a role in the decline of the food industrial output. The manufacture of basic metals and fabricated metal products (i.e. the metallurgy), following a 7 percentile output growth in 2004, lagged by 1.5% behind the level of the previous year due to the moderate growth of exports and the decline in domestic sales.

Following a slight decrease in 2004, the output of electricity, gas and water supply rose by 1.7% in 2005. In connection with the construction boom the manufacture of other non-metallic mineral products (principally building materials) expanded to the largest extent (by 17%) in 2005. Out of the further branches with a small weight there was a growth around the average in manufacturing n.e.c, including also the furniture manufacture, in manufacture of paper, publishing and printing and in manufac-

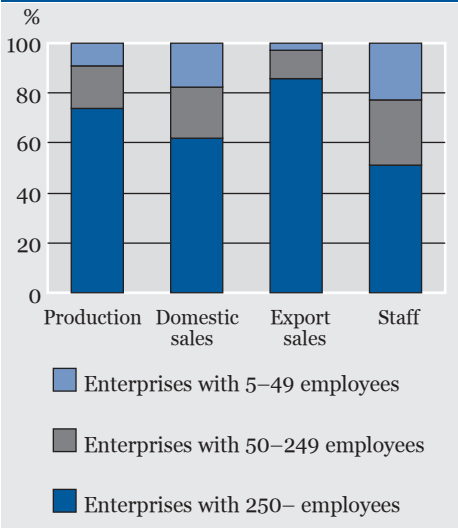
ture of leather products and footwear, while there was an output decline in mining and quarrying, in manufacture of textiles and in wood working industry.

The transformation of the branch structure of the industrial production progressed: the manufacture of machinery, i. e. the driving branch of the industry, provided 47% of the total industrial output in 2005, by 2 percentage points higher than in the previous year. The contribution of chemical industrial branches to the production increased again (at current prices to 16% from 14% in 2004), while the weight of light industrial branches and food industry diminished.

tic sales also rose modestly, following a downward trend in the previous years. Small-sized enterprises with 5–49 employees indicated a production expansion of 4.3%, backed by a 23 percentile growth in their domestic sales, their exports did not reach the level established following a 42 percentile growth in 2004. Medium-sized enterprises with 50–249 employees expanded their output by 4.6%, along with a 5–6 percentile, balanced growth of their domestic and export sales.

In 2005 the industrial output expanded in five **regions** of Hungary, while it declined in two regions against the level reached one year before, when every region could increase its industrial production. The largest growth (21%) was measured in Central Transdanubia, so this region has become the area representing the greatest production value in Hungary. The second highest growth rate (15%) was reached in Northern Hungary, followed by Central Hungary (4%). Out of the two regions with a decreasing performance, the decline was more significant in Southern Transdanubia (14%), the production of Western Transdanubia lagged by 2% behind the level in 2004, when both regions reached a growth of 6.1%.

Distribution of industrial production, sales and staff by enterprise category, 2005



By **employment category** the large enterprises (with 250 and more employees) increased their production to the largest extent (by 8.5%) in 2005, too. In the background of this fact we find the lively external market demand, although their domes-

The **per employee industrial output** increased by 11% in 2005 at organizations with minimum 5 employees; the growth was of a slightly higher extent, in the background of which we can find the reduction of staff by 2.9%, higher than in 2004. The productivity rose in every branch, excluding the food industry, with the greatest rate (26%) in the manufacture of building materials, then in the manufacture of electric machinery and optical instrument (17%) and in crude oil refining (16%). In addition to the the significant growth of the produc-

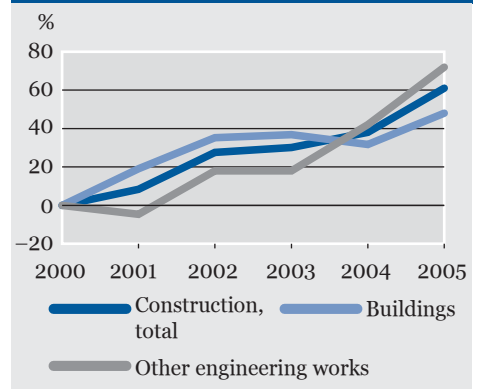
tion volume the 1–7 percentile decrease of the number of employees also contributed to the above average productivity expansion.

Industrial investments, following a dynamic (over 10%) growth during the preceding two years, decreased by 1.7% at organizations with a staff over 4 employees. This resulted from the fact that investments in electricity, gas and water supply, as well as in mining and quarrying decreased by 14 and 11% respectively, while they rose by 1.4% in the manufacturing, at a more moderate rate than formerly. Within manufacturing, investment rose considerably (by 13 and 36% respectively) in manufacture of transport equipment, machinery and equipment over 2004, while it declined by over a quarter in manufacture of electric machinery and optical instruments, following an outstanding growth in 2003 and 2004.

The industrial production of the **European Union** (EU–25) increased by 1.1% in 2005 over 2004, when the growth rate was 2.1%. Within this the greatest production growth was measured in branches manufacturing investment goods, while the output diminished in consumer durables and energy manufacturing ones. In 2005 the growth of the industrial output was higher in the newly acceded member states, especially the Baltic states, Hungary and the Czech Republic, where the expansion rate reached 6–9%. In Germany, similarly to 2004, the growth was above the average (3.5%), while the industry of France, Italy and the United Kingdom is featured by stagnation or decline. In 2005 the industrial output expansion was more dynamic in the United States of America (3.5%) than in Europe, while the growth of the industrial performance of Japan (1.4%) was near the European average.

In the European Union the growth of the per employee industrial production, along with a 1.2 percentile staff reduction, slowed down to 2.3% from 4% in 2004. According to available data the productivity rose to a largest extent in Hungary, however, the growth rate was above 6% in the Czech Republic, Estonia and Lithuania as well. Productivity decline featured Spain and Finland, due to a moderate production expansion along with a higher staff increase in the former country, and a decreasing production with a slight staff growth in the latter.

Change of construction output by main group of structures
(compared to 2000)



During the recent years the recovery of the construction market has resulted in a lasting growth of the **construction** output. The most dynamic expansion occurred in 2002 and 2005 (17–18%) since the millennium turn. While formerly the rapid development was due to the construction of buildings, in 2005 it resulted from the development of motorway network. On the whole, construction had an output by 66% higher in 2005 than in 2000. During this period a higher growth was reached only by

the Baltic states and Bulgaria in Europe. According to preliminary data 14.3 percentile growth of the value added of the construction exceeded by 10.2 percentage points the national economy average in 2005. The volume of building construction, representing 52% of the output, exceeded by 12.5% that in the previous year, while the construction of other establishments rose by 21.4%. Within the construction of **buildings** the declining dwelling construction represented a smaller share than 30% in the previous year, however, invariably an uplift featured the construction of other establishments. Despite the surplus supply the construction of office blocks is still in progress, and the construction of commercial establishments also continued, not only in Budapest and in its surroundings, but also in large cities in the countryside. Block rehabilitations and construction of deep garages and of multifunctional parking establishments continued, too. Construction and reconstruction of health, education and cultural institutions, sport and leisure-time centres and spas, as well as accommodation establishments continued. The construction of homes for the aged and that of health centres was enhanced by the fact that citizens of EU member states are also expected. New industrial plants were established mainly in framework of green-field investments.

New motorways, roads represented the largest weight in construction of **other establishments**, however, peripheral roads were built to ease the traffic burden of the city centres, and development of suburban transport continued, too. In Budapest, in addition to the summer road reconstructions the preparing activities related to new underground line number 4 and the reconstruction of underground line

number 2 continued. Public utility, especially waste-water treatment and water conduit reconstructions, as well as telecommunication and informatics developments took place, too.

In 2005 the volume of construction activities of construction enterprises of three **regions** (Central Hungary, Northern Great Plain, Southern Transdanubia) with local headquarters and with minimum 5 employees increased over the average of the entire construction, however, there was a growth in the other regions, too. Output growth of the organizations with Central Hungarian headquarters, representing at least 50% in the total output, first of all resulted from road and motorway constructions in several places of Hungary by the large firms with Budapest headquarters, however, large-scale reconstructions in Budapest also contributed to the growth.

The volume of new **contracts** concluded by construction enterprises in 2005 lagged by 5.9% behind the extraordinarily high base in the previous year. A quarter more contracts were concluded for building construction, while there were 30% less contracts for construction of other establishments. 52% of new contracts of HUF 1,853 billion value was concluded for construction of buildings, while the rest was devoted for other establishments. The volume of the contract stock, representing HUF 1,175 billion at the end of December 2005 was by 12.3% higher than the respective sum in the previous year, and 70% of the abovementioned value concerns contracts concluded for construction of other establishments. Similarly to 2004 the value of the total contract stock corresponds to an output of 6.9 months. The construction sector started the year 2006 with contract stocks for construction of buildings and

other establishments with values of 3.8 and 10.2 months respectively. These data on the supply with contracts are more favourable than in the previous year.

Transport, telecommunication, informatics

In 2005 the **quantity of goods transported** by domestic enterprises belonging to the branch of transport (including in road transport also those operating outside the branch) increased by 4.4% compared to the previous year. The average transport distance rose due to the growth of the share of international transport in total transport. The **performance** of the transport sector **measured in freight ton-kilometres** expanded by 13%, within which there was a growth of 22, 9 and 4% respectively in road, water and pipeline transport, while there was a decline of 3% in rail transport.

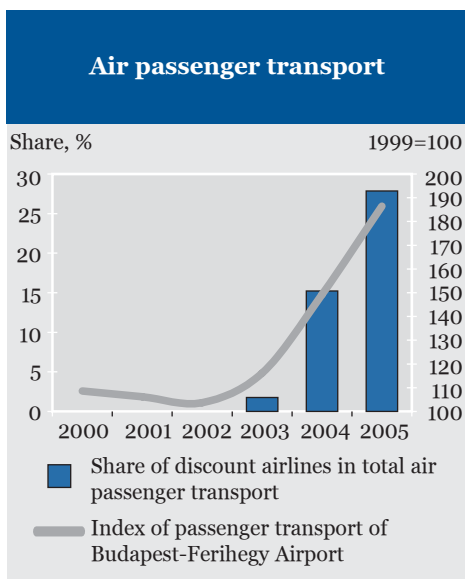
transport rose to 61%, that of rail transport decreased to 21%, and respective shares were 14 and 4% in case of pipeline and water transport. In course of one year the share of road transport increased by some 5 percentage points, while that of rail and pipeline transport decreased by over 3 and 1 percentage points respectively.

In the **national transport** the quantity of the transported goods increased by 4.1%, while the performance in freight-ton kilometres rose by 1.4%. In the **international goods transport**, principally as a result of the strong expansion of the road transport, the quantity of transported goods grew by 5.8%, while the performance increased by 20%.

In **road transport** the national deliveries expanded at a modest rate, while international ones expanded by over 40%, representing more than half of the road transport performance in 2005.

In the **interurban passenger transport** the number of passengers carried rose to a small extent, while the performance in passenger kilometres expanded by 3% also due to the deepening of the role of the international transport. The performance declined by 4% domestically, while it expanded by 29% internationally due to enlargement of air transport. The share of the air transport in the total passenger kilometres performance rose from 18 to 24% in course of one year, while that of rail and road transport declined from 38 and 44% to 34 and 42% respectively.

The number of passengers carried in **urban passenger transport** declined by 4% and the performance in passenger kilometres decreased by 3%. 66% of the performance was represented by bus transport, shares of underground and tram transport were 13 and 12% respectively.



Within the performance expressed in freight ton-kilometres the share of road

As a result of the nearly 25 percentile growth of the passenger traffic over 8 million passengers used the **Budapest-Ferihegy airport** in 2005. In course of the year, altogether, 126 thousand flights arrived and departed. The growth in the number of flights (13%) lagged behind the expansion of the passenger traffic, indicating a better flight occupancy. The number of MALÉV passengers reached 3.3 million, slightly above that in 2004.

Almost every airline closed 2005 with a surplus in the passenger traffic. Discount airlines enjoyed an outstanding growth: their traffic increased by 169%, they covered 28% of the total air passenger traffic.

On 31 December of 2005 the **passenger car stock** of Hungary amounted to some 2.9 million, with an average age of 10.5 years, slightly smaller than one year before. In Hungary the number of passenger cars **registered for the first time** was 240 thousand in 2005, by 6% less than in the previous year. Among them types of Suzuki, Opel and Ford were most general.

In the field of **telecommunication** the trends observed in the recent years continued, though the depressed fees, due to the sharpening competition, somewhat affected these changes. The decrease of the number of **telephone lines in fixed network** slightly accelerated in 2005 compared to preceding years. The number of these lines went below 3.5 million by the end of 2005, i.e. by 350 thousand fewer subscribers were registered in Hungary than in 2000, the year representing a peak. The number of telephone lines per 100 inhabitants was 34.2 at the end of 2005, a figure low in EU comparison, however, it exceeds the average of newly acceded countries. A decline can be observed in the EU as well, though it is more moderate than in Hungary.

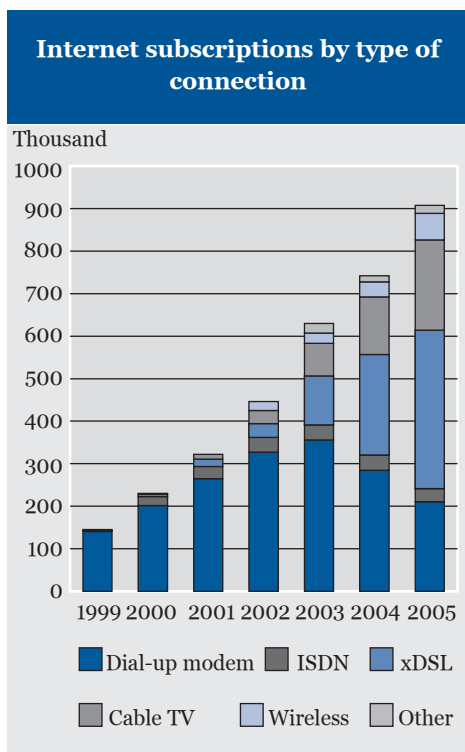
The number of **mobile telephone subscriptions** increased by 7% in 2005, more slowly than in former years, the market progresses to the saturation. At the end of the year 9.3 million sold SIM cards were registered, within this the share of pre-paid card subscriptions diminished further, reaching 68% at the end of 2005. The use of mobile telephones is relatively high in international comparison. At the end of 2004 there were 90 mobile subscriptions per 100 inhabitants on the average of EU-25, the figure was on the average 75 in the newly acceded countries, while it was 86 in Hungary (reaching 93 in 2005).

The number of **telephone calls** initiated from fixed network (excluding Internet calls) decreased to a larger extent than the number of lines, however, their duration increased (presumably as a result of fee packages stimulating longer calls). The number and length of calls initiated from mobile telephones rose faster than the number of subscribers, and even faster than the growth rate experienced in the past three years. In 2005 2.8 billion calls were initiated from fixed network, while over twice as many (6 billion) calls were initiated from mobile telephones. With regard to the duration of calls the mobile network preceded the fixed one (excluding the Internet calls in the latter case) in 2004, and the difference between them reached already 24% in 2005. Total duration of calls initiated from fixed network amounted to 7.6 billion minutes, while that from mobile network was 9.5 billion minutes. New services also gained a significant role in 2005, the number of those using a pre-calling number, Internet-based and cable calls is more and more expanding.

The number of **Internet subscriptions** rose by 22%, somewhat faster than in

2004, but at a lower rate than in 2000–2003. 907 thousand subscriptions were registered at the end of 2005. The headway of broadband technologies continued simultaneously with the decline of their prices, the joint share of xDSL and cable TV services rose from 50 to 64%. A modem connection is used only by 23% of subscribers, against 56% two years before. The rise of returns from sales of Internet service (38%) exceeded the growth in the number of subscriptions, amounting to HUF 62 billion. Already 200 providers offer Internet access in the market, twice as many as one year before.

Hungary lags behind the EU average of 43% with regard to the share of users, however, it stands before the Czech Republic and Poland. 22% of the Hungarian households and 78% of enterprises with minimum 10 employees were connected to the web in 2005 (in the European Union the respective figures are 48 and 91%). The share of broadband users in subscribers can be regarded as high in the region, on the whole it is the same as the EU average. According to partially estimated data Hungarian enterprises with minimum 10 employees transacted 1.1% of their sales via Internet in 2005 (the EU average was 2.5%). Opposite to the EU trend mainly smaller Hungarian enterprises use this opportunity. In addition to high subscription fees in former years and other factors, the relatively low level use of Internet can be explained with small number of computers. Among the EU member states only in Hungary and Latvia, does the share of enterprises using computer in those with over 10 employees not reach 90%. The supply of the population with computer is more favourable in international comparison. In 42% of households there is an access to PC through a family member, a figure higher than the average of Visegrád countries.



According to Eurostat 34% of the Hungarian population used Internet once a week. This figure exceeds by some 50% that in 2004. Despite the dynamic growth,

The number of **post offices** was 2,844 at the end of 2005 (2,826 in 2004), out of which 179 operated in Budapest, 794 in other towns. The transition to a mobil post service came to an end, the decrease of the number of village post offices, observed in 2003–2004, stopped. In 2005 almost only establishing villages as towns changed the distribution of post offices by settlement. The number of letter post consignments exceeded 1.3 billion, the growth having decreased to a minimum during the last two years. Following a significant decrease of two years the parcel turnover increased by one tenth in 2005, amounting to 7.8 million pieces.

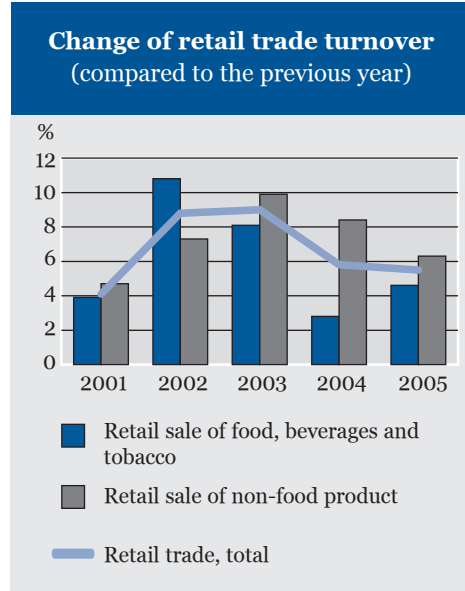
Total broadcasting time of **radio transmitters** rose by 12% in 2005 (nearly at an extent as jointly during the preceding four years), exceeding 1 million hours. **Television** broadcasting time rose above 2 million hours. the 3 percentile growth of the broadcasting time did not differ from the average of the recent years. The **cable television** network continued its expansion at a steady rate according to data of 2004. Two million dwellings were included in this network in 1,446 settlements this year (1.92 million in 2003), i. e. 46% of settlements and 47% of dwellings.

Retail trade

The **retail shop network** was featured by a numerical growth slowing down in the recent years and also in 2005. In the background we can find a significant change. 24,400 shops were closed and 24,900 new shops were opened in 2005. So their number increased by 500 (following a growth of 1,800 and 1,000 respectively in the preceding two years), amounting to 166,700 at the end of 2005. Total basic floor area of shops rose at a higher and accelerating rate, at 2 and 2.5% respectively in 2004 and 2005. The average basic floor area increased from 100 square metres at the end of 2003 to 102 and 104 square metres. In the background of these processes we find basically the further expansion of retail trade establishments with large basic floor area. 30 such establishments were opened in 2005, not reaching the peak in 2004 with 34 new ones, but significantly exceeding the 19 new establishments at the end of 2003. At the end of 2005 64 shopping centres, 91 hypermarkets and 80 specialized stores operated in Hungary.

The expansion of the shop network was increasingly concentrated in Central

Hungary since 2003, fostering the weight of this region within the retail trade network of the country.



The growth of the **retail trade turnover** accelerated in 2002–2003, the growth slowed down in 2004–2005, however, it remained significant in international comparison, too. The volume of sales, following an expansion of some 9–9% in the preceding two years, increased by 5.8 and 5.5% respectively in 2004 and 2005, compared to the previous year. Regarding the average of EU-25 member states the retail trade turnover increased at a moderate rate in almost every month of 2005 (decreasing in one month) compared to the same period of the previous year. The rate of the growth fluctuated between 0.8 and 2.4%, so it can be estimated to be around 1.5–2% on annual level. The dynamism of the Hungarian retail trade considerably exceeded the average of the EU month by month, Hungary ranked in the upper third of the member states. An overwhelming

majority of the countries acceding in 2004 expanded the retail trade turnover also faster than the EU average. Among them the dynamism of the retail trade of the Baltic states is outstanding, but that of the Slovakian and Slovenian retail trade was also high (higher than the Hungarian one).

In 2005 the retail trade turnover of Hungary was divided in 46–54 percentile shares between food, beverages and tobacco on the one hand, and non-food products on the other hand. These shares hardly changed in the recent years. The distributors of non-food products expanded their sales faster than the average in 2005, too, however, their growth slowed down. On the contrary, following a slowdown in 2004, a recovery was indicated again in food, beverages and tobacco retail trade, so dynamism of the two retail trade activity groups got nearer to each other.

In 2005 food, beverages and tobacco retail trade had a 4.6% greater turnover volume than in the previous year. Within this in the decisive non-specialized shops the growth was of 4.7%; first of all those with great basic floor areas (hypermarkets and supermarkets) rose their sales. The essentially smaller turnover of specialized food shops increased by 3.2%.

The distributors of non-food products reached a joint volume growth of 6.3%, with considerable differences in the various activity groups. Sales rose outstandingly in cosmetics and book, newspaper, stationery shops by 21 and 18% respectively. A significant sales growth was observed in parcel transmitting, and medicament, medical goods shops, as well as in furniture, household goods, building material retail shops with 11,9 and 7% respectively. The turnover of shops for textil clothing, footwear and leather goods and of non-specialized stores

with manufactured goods dominance increased by 6.5 and 5.4% respectively, indicating a new recovery following the slowdown in the previous year, while in the retail trade of other industrial goods a 0.8 percentile decrease replaced the former vigorous growth. The not too significant second-hand goods retail trade turnover, after indicating quite a rapid expansion for years, stopped short in 2005, its sales volume remained on the level of the previous year.

The sum of **motor sales**, not included in the retail trade turnover in the European statistical system, represents some four tenths of this turnover. Within this sum motor vehicle and parts sales have a share of six tenths, while the rest is fuel sales. Motor vehicle and parts distributors, following a two-digit turnover growth in course of several years, and reaching a growth of 6.8% in 2004, had a 1.6% greater turnover in 2005 than in the previous year. The turnover of fuel filling stations has always been strongly fluctuating, until 2004 its dynamism was lower than that of motor vehicle and parts turnover; however, it rose by 2.6% in 2005, exceeding the dynamism of the latter.

Tourism, catering

The year of 2005 indicated an uplift of the tourism all over the world despite the preliminary expectations, the fear from the bird flu, the natural disasters and the various terror actions. According to World Tourism Organization data such a high number of tourists (800 million) has never been registered until this time. The 5.5 percentile uplift on the average also affected the European Union, though more moderately: tourism nights spent by foreigners in EU member states (concerning the period

of January–November 2005 and 18 member states providing data) expanded by slightly over 2% compared to 2004.

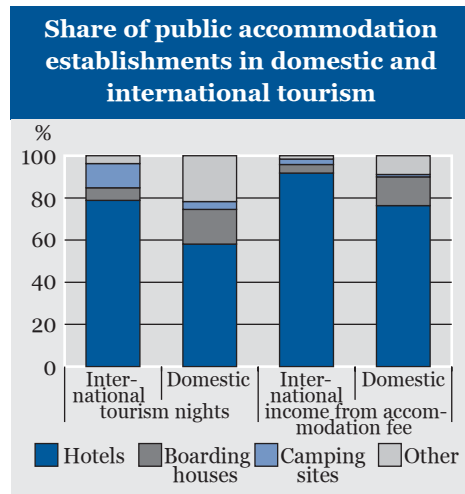
Foreign **visitors** crossed the Hungarian border 38.6 million times in 2005. This is the highest number of visitors since 1997, exceeding by 5% that in 2004. Hungarians travelled abroad 18.6 million times (this means more occasions than ever in the past), exceeding by 6% the figure in 2004.

Two thirds of foreigners visiting Hungary were people travelling through the country, shopping or making excursions, not spending one entire day in Hungary. Some one third of those spending a longer period in the country chooses public accommodation establishments, others stay in private accommodation establishments, with relatives or friends, or possess an own real estate in Hungary.

In 2005 some 7 million guests (among them 3.4 million foreigners and 3.5 million natives) arrived in **public accommodation establishments**, spending over 19 million nights, more than ever since the change of regime. Regarding the number of the tourism nights this means an expansion of 2% similarly to the former years. The majority of the increment was realized at hotels, mostly of higher categories. In case of boarding houses there was a growth corresponding to the average level, while the number of tourism nights decreased in case of other accommodation establishment types. Camping sites closed 2005 the least successfully, 12% less tourism nights were spent here compared to the previous year.

Foreign guests spent 10.6 million nights in public accommodation establishments in 2005, exceeding by 1% those in the previous year, and hardly fewer than in the outstanding 2001. In addition to hotels (with 3.5 percentile turnover growth),

boarding houses could register a 2 percentile expansion in their turnover. Youth hostels, suffering from a continuous decline since 2001, reported an expansion of 27%. The growth of the number of nights spent in four- and five-star hotels was outstanding (8 and 11.5% respectively), and among the lower hotel categories only two-star establishments registered a remarkable decrease (14%).



The citizens of the European Union represented three quarters of the total foreign guest nights (some 8 million) spent in public accommodation establishments. This indicator practically did not change compared to the former years, however, the role of the individual EU member states has changed. In 2005 especially the number of guests arriving from the United Kingdom and Ireland rose dynamically, by 38 and 25% respectively. Nevertheless, citizens of these countries represent for the time being only less than 10% of the foreign guest turnover. The most significant partner of our country, Germany has a share of 31% in the foreign guests, however, the number of its tourism nights declined further by 5% in 2005. (The

number of German guests rises most dynamically in the Baltic states among the new member states of the EU.) The citizens of the United States and Japan payed for 9 and 29% more tourism nights respectively in 2005 compared to the previous year.

The number of tourism nights of **domestic** guests amounted to 8.7 million in 2005, increasing at a higher rate (by 3.5%) than that in case of foreigners. The growth was of 11.5% in hotels: three-, four- and five-star units registered an expansion of 11–33%, the tourism nights of one- and two star-hotels declined by 2–13%.

The enlivening holiday-check turnover also contributed to the expansion of the domestic tourism: in 2005 checks with value of HUF 7.2 billion were used, at current prices their value exceeded by some one third that in the previous year. The growth was especially strong at hotels (50%), boarding houses (68%), and at private accommodation establishments (62%). The number of establishments accepting checks rose to 2,800 from below 2,000 in the previous year.

In hotels the **room occupancy** was 48% in 2005, by 2 percentage points higher than in the previous year. Hotels in the Budapest and Sopron-Kőszeghegyalja holiday regions reached occupancy rates fairly above the average (63 and 52% respectively); the same holds for four- and five-star hotels (59 and 65%). The occupancy rate declined at hotels around Lake Balaton, in the Danube-bend, Mecsek and Villány and at Lake Tisza compared to 2004.

Receipts of public accommodation establishments amounted to HUF 214 billion (at current prices) in 2005, they increased by 6% (at constant prices) in course of one year. The transformation of the structure of receipts slowed down: the decline of accommodation fees' share did not continue, these fees represent somewhat

more than half of total receipts similarly to 2004. Receipts from catering represent one fourth of total receipts; namely, their continuous growth lasting during four years turned into a decline in 2005. Nevertheless, the growth of the share of other services receipts continued, reaching 23% in 2005, resulting from an expansion of 15%.

Bed-place capacity of public accommodation establishments reached its peak in 2003 (347 thousand), it has declined by 8% since then. However, the decrease did not concern hotels, they continuously expand their capacities, waiting for guests with 114 thousand bed-places in 2005. The largest decline in volume of bed-places occurred in campings. Regarding the share of bed-places the same holds for tourist hostels, where the capacity fell to four fifths between 2003 and 2005; however, other accommodation establishments had fewer bed-places in operation in 2005 than in 2003.

In Budapest, registering one third of tourism nights, the foreign and domestic tourism turnover rose by 7 and 4% respectively. The Balaton holiday district, possessing over one fifth of tourism turnover, increased the number of domestic tourism nights by some 10% in 2005, while the number of foreign tourism nights was by 7% less than in 2004. Holiday districts of Mátra and Bükk and Sopron-Kőszeghegyalja registered a modest expansion of 1%, while those of Danube-bend and Mecsek and Villány registered a moderate decline of 3 and 6% respectively.

Along with the regional concentration a strong predominance of tourism nights registered in the season against other periods of the year invariably can be observed: some seven tenths of tourism nights are registered in the May–October period. This concentration is weakening slowly: in 2005 only 69% of tourism nights were registered

in the season against 74% in 1998. In 2005 during the high season (July–August), representing some one third of the annual turnover, guests spent by 3% fewer tourism nights than in 2005; receipts of public accommodation establishments at constant prices exceeded by 7% those in the same period of 2004. The hotel room occupancy rate was the highest (62%) in August.

since rural tourism represents invariably only nearly one fifth of the total private accommodation turnover, the decline in the latter was 5% in course of 2005.

Tourism-related items of the **balance of payments** indicate that in 2005 both revenues and expenditures were higher than in the previous year. In 2005 revenues increased for the first time since 2001 com-

Capacity and tourism nights at public accommodation establishments

Accommodation	Number of operating bed-places		Number of tourism nights, thousand	
	2004	2005	2004	2005
Hotels	112,769	113,626	12,638	13,444
Boarding houses	45,201	43,720	2,024	2,062
Tourist hostels	34,827	28,259	858	786
Youth hostels	21,890	19,916	702	649
Bungalows	22,862	22,250	923	844
Camping sites	98,945	91,966	1,754	1,551
Total	336,494	319,737	18,899	19,335

In the sphere of the **private accommodation** nearly 43 thousand registered hosts offered 240 thousand bed-places for the guests. The number of hosts slightly decreased (by 2%), the number of bed-places did not change compared to July 2004. A large part of such bed-places can be found in Transdanubia (85% of them in Central, Western and Southern Transdanubia). Nearly half of rural tourism bed-places was operated by hosts in Western Transdanubia and Northern Hungary.

667 thousand guests payed for almost 3 million tourism nights In 2005, that is, the decline of guest turnover in private accommodation lasting since 1999 continued. In private room service the number of tourism nights spent decreased by 8% in 2005, while it rose by 15% in rural tourism. Nevertheless,

pared to the previous year, i.e. by 5%, while the growth rate of expenditures remained moderate, not reaching 2%. As a result, the tourism balance (EUR 1,085 million) exceeds by EUR 123 million that in 2004.

The volume of sales in **catering** turnover rose by 5.6%, so amounting to HUF 634 billion at current prices in 2005; some nine tenths of this sum represented the public catering turnover, while the rest was the turnover of canteens. Following the high growth in the former years the turnover of canteens stagnated, while the volume of public catering turnover was by 14% higher than in 2004. Some seven tenths of catering turnover was represented by sales of meals, while share of alcoholic and non-alcoholic beverages was 13 and 10% respectively.

List of figures

Factors affecting population size	7
Population by gender and age	8
Distribution of the adult population by marital status	9
Live births and deaths per thousand inhabitants.....	10
Number of pupils and students in full-time school-system education.....	13
Economic activity of the 15–74 year-old population.....	19
Employment rate of the 15–64 year-old population in Q3 2005.....	20
Employment and unemployment rate by regions, 2005	21
Changes in the main components of income and in household consumption	23
Earnings.....	23
Share of social incomes in GDP, 2003	25
Amount and real value of pensions and pension-like benefits	25
Concentration of net personal income per capita	26
Annual change of household financial assets and liabilities	29
Expenditure structure of different strata of the population, 2005	30
Distribution of households consumption expenditure in the EU-25 and the new member states, 2004.....	30
Occupied dwellings and their equipment.....	33
Housing loans and subsidies by purpose	35
Protected areas of national or local significance.....	36
Areas under organic farming and the number of producers in Hungary.....	37
Mortality in Hungary	38
Main indicators of publishing.....	43
Number of discovered crimes	45
Members of Parliament by age.....	48
Growth of GDP compared to the same quarter of the previous year	50
Index of GDP and external trade compared to the average of 2000	51
Index of GDP and domestic use compared to the average of 2000	51
Change of GDP, consumption and real earnings	52
Level of economic development and productivity, 2004	57
Gross domestic product per capita, as % of national average, 2004	59

Components of the current account	65
External trade turnover by country groups, 2005	69
External trade of food, beverages and tobacco	70
Change in the forint price level of external trade	77
Energy use per unit of GDP, 2004	79
Change of the gross production value	83
Distribution of industrial production, sales and staff by enterprise category, 2005	85
Change of construction output by main group of structures.....	86
Air passenger transport	88
Internet subscriptions by type of connection.....	90
Change of retail trade turnover	91
Share of public accommodation establishments in domestic and international tourism.....	93

List of tables

Households, families	9
Principal demographic figures per thousand inhabitants, 2005.....	11
Comprehensive data of research and development.....	16
Regional distribution of the main research and development indicators.....	17
Monthly average child care benefits per capita.....	26
Dwelling construction	34
Social institutions ensuring long-term and temporary residence	41
Family assistance and child welfare services	42
Support of coalition and opposition parties, %.....	47
Number of votes cast on regional lists, 9 April 2006.....	47
GDP and GNI.....	53
Distribution of gross value added by sectors of ownership	55
Distribution of value added by sectors	56
Investments of the national economy	60
Energy consumption.....	80
Livestock population on 1 December	82
Capacity and tourism nights at public accommodation establishments.....	95

Explanation of symbols

.. = not available