

ENGLISH ONLY
7th February, 1957

INFO. CO. FILE NO. 1141
REF ID: A 7
AC/1141-11/3

CONFIDENTIAL - POLITICAL ADVISORS

Note by the International Staff
on Hungary's Economic Situation

I. Agricultural Situation

(a) Grain

1. The following table summarizes information on the harvest contained in the United Nations report on aid to Hungary:

	thousands metric tons			
	1950-51 average	1954	1955	1956
Feed grains	3,450	3,250	3,100	3,050
Bread grains	2,600	2,100	1,700	2,200-2,300

2. Although Hungary was a grain exporter before the war, her agriculture has suffered from the communist policy of collectivizing the farms and of switching resources to industry. Since the war she has even had to import grain in bad harvest years. Following the poor 1954 harvest, 200 thousand tons of bread grains were imported. The 1956 harvest has been another mediocre one, and even before the revolt last October, the Hungarian government had let it be known that imports would again be required. Since then the government has arranged for 1,000 thousand tons of wheat and 1,000 thousand tons of feed grains to be imported from Russia and China.

3. It is likely that demand for grain and in particular for feed grain will be this year below the normal level, as many animals have been killed since the rebellion.

(b) Sugar

4. The Hungarian government has announced that sugar output will be greater than last year.

(c) Tilling of the land

5. Ploughing was hampered even before the rebellion by the petrol shortage caused by the reduction in Hungarian oil production. A few days before the revolution, it was announced that four-fifths of the land was still untilled. In view of the disturbances which followed, it is likely that not all the land has been ploughed in time, and the harvest next year may suffer as a result.

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(d) Hungary's "Urgent Needs" according to the FAO

6. According to the FAO, Hungary's "urgent needs" are the following:

Seed for spring plantings	15,000 tons
Chemical fertilizers	50,000 tons
Feed grains	300,000 tons
Wheat	400,000 tons
Sugar	20,000 tons
Cocoa	10,000 tons
Coffee	1,000 tons
Pepper	100 tons
Lemons	5,000 tons
Oranges	2,000 tons

The Hungarian government has stated that, if these goods are sent as gifts, it would authorize the FAO to control their distribution.

II. Foreign Trade

7. Hungary exports roughly a quarter of her total output of goods and services, and is therefore highly dependent on foreign trade. She has few natural resources and must therefore import nearly all the raw materials and a significant fraction of the coal and electricity which her economy needs.

8. The main exports and imports are listed below:

<u>Main Exports</u>	<u>Main Imports</u>
Agricultural	Agricultural
Sugar	Grain (in bad harvest years)
Some animal products	
Raw material and energy	Raw material and energy
Bauxite	Coal and coke
Oil (small quantities)	Electricity
	Iron ore
	Wood and woodpulp
	Raw cotton
	Rubber
Industrial products	Industrial products
Railway equipment	Steel
Electrical equipment	Non-ferrous metals
Some types of machine tools	other than aluminium
Bridges	Finished metal goods
Clothing and cotton textiles	

9. The Economic Commission for Europe gives the following data on Hungary's trade by areas in 1954:

<u>Area</u>	<u>Millions of dollars</u>	<u>% of total</u>
<u>Sino-Soviet bloc</u>		
USSR	280	30%
European satellites	320	34%
China	50	5%
Total	650	69%
<u>Free World</u>		
Western Europe	160	17%
Other	140	14%
Total	300	31%

III. Aid promised to Hungary by the Sino-Soviet bloc

10. The amount of aid which Soviet bloc countries have already promised to grant Hungary is shown below.

	<u>Loans</u>	<u>Gift consignments</u>	<u>Loans+gifts in mil. dol.</u>
Czechoslovakia	(2)	132 m. Kor	18
Rumania	(2)	13 m. leis	2.2
Bulgaria	7 m. roubles	9.5 m. roubles	3.1
Poland	(2)	125 m. zlotys	31
Albania		0.2 m. roubles	-
East Germany	60 m. roubles	22 m. D.M.	25
Vietnam		3 m. roubles	0.8
China	200 m. roubles (1)		50
USSR	250 m. roubles (1)	38 m. roubles	72

- (1) half the Chinese loan and the whole of the Russian loan are reported to be in free currencies; i.e. they can be spent in Western countries.
- (2) these countries have agreed in principle to grant loans and are presently negotiating on the amounts to be granted.

11. During the first quarter of 1957 planned imports and exports amount to 242 and 51 million dollars respectively, leaving a deficit to be financed by foreign aid of 191 million dollars. This deficit seems to be covered by the aid already promised by Soviet bloc countries.

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IV. The coal situation(a) The coal shortage in Eastern Europe

12. Coal has been for years one of the scarcest commodities on the Eastern bloc. The shortage has been especially apparent in East Germany, Czechoslovakia and Western Russia. Hungary is another chronic sufferer, and there the situation has, of course, become worse in the last months. Poland is still able to export coal, but the available surplus is shrinking rapidly.

13. Since 1954 Poland has tended to avoid any reduction in her coal sales to Western Europe, which are her main source of free World currencies. Her Soviet customers have therefore borne the brunt of the reduction in Polish coal exports.

Polish coal exports (in millions of tons)

	<u>1954</u>	<u>1956 (estimated)</u>	<u>1957 (planned)</u>
Total	31	19.7	11
to the West	7	6.5	n.a.
to the bloc	24	13.2	n.a.

14. Polish coal exports to the Eastern Bloc are estimated as follows for the year 1956:

USSR	6.5 million tons	(8.7 million tons in 1955)
Czechoslovakia	3.7 "	" (3.8 " " " ")
East Germany	2.6 "	" (5.4 " " " ")
Hungary	0.4 "	" (1955 figure not available)

15. East Germany, who produces little hard coal and has recently obtained more than half of her coal supplies from Poland, is in difficulties. The government has already announced that the uncertainty about fuel supplies makes it impossible to draw up the economic plan for 1957 and may force changes in the coming five-year plan.

(b) Coal supplies in Hungary

16. Coal output at present is somewhere around 50,000 tons per day, compared with a daily output of 78,000 tons before the rebellion. Imports are currently 7,000 tons per day, mainly from Russia and Poland; before the rebellion imports seem to have been approximately 2,000 tons per day.

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17. However, these figures do not give an accurate picture of the fuel position in Hungary because of the very different quality of domestic and imported coal. 91% of Hungary's coal output is lignite, each ton of which produces only 50% as much heat as hard coal. The whole of imports is hard coal. The following table compares fuel supplies before the rebellion and at present, expressed in hard coal equivalent:

	tons per day	
	Before the rebellion	Planned for February
Home production	34,000	21,000
Imports	2,000	7,000
Total supplies	36,000	28,000

V. Inflation

18. The Hungarian government estimates that personal incomes have risen by 20% as a result of wage increases and the rise in prices received by farmers. Industrial output is about half the previous level. To fight inflation, investments are being cut by half, and military expenditures will also be greatly reduced. In spite of this, the government has stated that outside assistance is necessary if inflation is to be curbed.