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ECONOMIC COMMITTEE

HUNGARY: FOREIGN TRADE

Note by the United Kingdom Delegation

PART I. SUMMARY AND CONCLUSIONS

Hungary's dependence on foreign trade is considerable and exports amount to over 15 per cent of her estimated gross national product.

2. In 1971 trade turnover increased more rapidly with CMEA countries than with the industrial West and developing countries, in contrast to the 1966-70 period.

3. Hungary's trade deficit, both with CMEA and non-CMEA countries, increased considerably in 1971 and the reduction of the deficit became a central concern of Hungarian foreign trade policy.

4. Hungarian trade with the United Kingdom decreased slightly in 1971 though the prospects for 1972 seem rather better.

5. The 1971-75 plans place renewed emphasis on trade with CMEA States although trade with the industrial West and developing countries is planned to grow by over a third.

6. Hungary will continue her aggressive pursuit of Western technology and her competitive ability in Western markets could increase. This could be important in the context of her trading relations with an enlarged EEC.

PART II. MAIN REPORT

INTRODUCTION

1. In this paper we present a brief analysis of Hungarian foreign trade including some breakdown as between partners and by commodity and with some reference to the financing of trade and likely trends in the period up to 1975. Selected statistics are attached at appendix and the main text seeks to comment on points of particular interest. Statistics are, where possible, derived from Hungarian sources.

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2. Hungarian dependence on foreign trade is considerable with exports amounting to over 15 per cent of estimated gross national product. Total trade turnover during the five-year 1966-70 increased by 59 per cent to reach \$4,822 million. Last year it rose by nearly 14 per cent compared with the planned 8 per cent. Trade turnover with the non-Socialist countries increased more rapidly than that with Socialist countries during the years 1966-70. In 1971 however the position was reversed, although imports from the industrial West increased by 20 per cent. Hungary recorded a deficit on the overall trade account of \$92 million during the last Five-year Plan. She was in surplus with Socialist countries (\$122 million) but in deficit with both the industrial West and the Developing Countries. Last year brought a considerable addition to the overall deficit on visible trade account (\$489 million), and the reduction of this deficit had become a central concern of Hungarian foreign trade policy.

TRADE WITH SOCIALIST COUNTRIES

3. In 1971, the Socialist countries accounted for over 67 per cent of Hungary's total trade, the chief partners being the Soviet Union, East Germany, Czechoslovakia and Poland, who together accounted for 59 per cent of total turnover. In 1971 Hungary had a surplus only with Poland, North Vietnam, China and Mongolia and her deficit with this Socialist sector reached \$241 million. (Appendix II.)

4. Hungary relies heavily on the Soviet Union for raw materials, semi-finished goods, fuels and electric power. Exports to the Soviet Union comprise mainly agricultural produce, machinery and equipment and consumer goods. The more important Hungarian exports to other Socialist countries include engineering products, foodstuffs and pharmaceuticals while imports comprise mainly raw materials, chemicals and some engineering products. (See Appendix V and VI.)

TRADE WITH NON-SOCIALIST COUNTRIES

5. About 33 per cent of Hungary's trade is with non-Socialist countries, and of this 85 per cent is with the industrial West. The leading Western partners in 1971 were West Germany, Italy and Austria, who together account for 42 per cent of Hungarian trade with the non-Socialist sector (\$763 million). Hungarian trade with the United Kingdom and Switzerland decreased by 4 and 10 per cent respectively in 1971(1). (Appendix III.)

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- (1) United Kingdom trade statistics show that trade turnover with Hungary rose by about 3 per cent in 1971 over 1970. In this report Hungarian figures are used where possible.

6. Hungary purchases mainly finished and semi-finished industrial products from the West: machinery accounts for a surprisingly small proportion of imports. In 1971 purchases of Western consumer goods increased slightly as did imports of chemicals. Hungarian exports to this area still tend to be items with a low level of processing; 75 per cent of exports are in the semi-processed and foodstuffs categories. (See Appendix V and VI.)

7. Trade with the developing countries decreased slightly in 1971, due primarily to a fall in Hungarian imports, and trade was just in surplus with these countries following a deficit in 1970. The \$136 million of Hungarian exports to these countries included an estimated \$20 million worth on long-term credit; in Hungary's imports there was presumably an element of long-term debt repayment but this would be very small. Joseph Biro's statement at UNCTAD this year that "the pattern of imports to the benefit of the developing countries, improves at a fast rate" would seem to be confirmed only by trade figures with India, Iraq, Pakistan and Sudan(1). Hungarian exports comprise machinery and equipment, while imports are mainly raw materials and semi-manufactures. (Appendix IV.)

FINANCE

8. Payments for the greater part of Hungary's foreign trade are conducted through bilateral clearing accounts. Trade with multilateral partners, at \$1,136 million(2), had a deficit, on visible trade, of \$144 million, compared with \$42 million in 1970. During the years of the last Five-year Plan the cumulative deficit reached \$65 million, with a surplus only in 1969.

Trade with multilateral partners in Million US\$

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971(2)</u>
Turnover	602	636	711	870	1,174	1,136
Exports	290	311	341	456	566	496
Imports	312	325	370	414	608	640
Balance	- 22	- 14	- 29	+ 42	- 42	- 144

(1) No breakdown for all developing countries is available yet

(2) 1971 data excludes such partners as Denmark, Norway, Australia, Canada, United States and Japan

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9. There are no comprehensive sources of information on Hungary's receipts and payments in convertible currency on the invisible account, except her balance of payments position with GATT countries, to be found at Appendix VII. Net hard currency earnings from tourism in 1971 are estimated to have been about \$30 million (gross dollar earnings from tourism were about \$50 million; a figure of about \$43 million is implied in the prospectus of the recent Eurobond issue).

PROSPECTIVE DEVELOPMENTS

10. For the period 1971-75 Hungarian trade with Socialist countries is planned to grow by nearly 68 per cent, and that with other countries by 34 per cent, indicating a 56 per cent growth in foreign trade overall. In practice, trade with the West may prove to be greater than planned, as happened in the 1966-70 period. The renewed emphasis on trade with Socialist countries is a reversal of the trend apparent in recent years, though in 1971 trade with both Socialist and non-Socialist countries exceeded the planned level. Hungarian foreign trade plans imply a continued, but much smaller overall trade deficit this year. The overall trade account will certainly be improved if autumn crops are as good as expected, and increasing exports are expected to result in a small surplus with CMEA countries. Figures for the first six months of 1972 reflect these trends. Imports fell by 6 per cent while exports rose by 22 per cent and the share of trade falling to Socialist countries rose to 69 per cent. The overall deficit was reduced to \$140 million compared with \$449 million for the corresponding period last year. As far as trade with the United Kingdom is concerned, the indications are that the prospects for 1972 are better than in 1971.

Hungarian trade in first six months of 1972

(In million US\$(1))

	<u>Exports</u>	<u>Imports</u>	<u>Turnover</u>	<u>Balance</u>
Socialist	983.8	1,006.6	1,990.4	- 22.8
Non-Socialist	387.9	505.2	893.2	- 117.3
All	1,371.8	1,511.8	2,883.6	- 140.0

11. The gap between domestic production of raw materials and demand has considerably widened in recent years, particularly as regards oil, iron ore and chemicals. Hungary expects the Socialist countries to provide only 65 to 70 per cent of her raw material needs in future and beyond 1975 she will increasingly need to turn to the free world and may in consequent have to forego some machinery and consumer goods imports unless she can

(1) US\$ = 10.81 forints at the new official rate of exchange. This is used for official statistical purposes but not necessarily for actual commercial transactions.

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come to satisfactory bilateral arrangements with raw material producers among the developing countries (e.g. Iraq for oil). But she is likely to continue her aggressive pursuit of Western technology through the medium of co-operation agreements and sophisticated barter arrangements. The resulting improvement in product quality could make Hungarian finished goods more acceptable to Western markets. This is particularly important in the context of her trading relations with an enlarged EEC, given the possible dangers to the expansion of her agricultural exports from the Common Agricultural Policy.

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APPENDIX I

HUNGARY : FOREIGN TRADE

(In million US\$)

		1965	1970	1971	Percentage change 1971-70
Total trade	Turnover	3,029.8	4,821.7	5,490.0	+13.9
	Exports	1,509.5	2,316.6	2,500.4	+7.9
	Imports	1,520.3	2,505.1	2,989.6	+19.3
	Balance	-10.8	-188.5	-489.3	
Trade with Socialist countries ...	Turnover	2,076.0	3,136.6	3,686.6	+17.5
	Exports	1,057.8	1,519.5	1,723.0	+13.4
	Imports	1,018.2	1,617.1	1,963.5	+21.4
	Balance	+39.6	-97.6	-240.5	
Trade with non-Socialist countries ...	Turnover	953.8	1,685.2	1,803.5	+7.0
	Exports	451.7	797.1	777.4	-2.5
	Imports	502.1	888.1	1,026.1	+15.5
	Balance	-50.4	-91.0	-248.7	
Trade with industrial West	Turnover	758.0	1,411.5	1,538.8	+9.0
	Exports	351.0	665.5	641.6	-3.6
	Imports	407.0	746.0	897.2	+20.3
	Balance	-56.0	-80.5	-255.6	
Trade with developing countries ...	Turnover	195.9	273.6	264.7	-3.3
	Exports	100.8	131.5	135.8	+3.3
	Imports	95.1	142.1	128.9	-9.3
	Balance	+5.7	-10.6	+6.9	
Trade with multilateral partners ...	Turnover	551.0	1,174.0	1,136.0	-3.2*
	Exports	257.0	566.0	496.0	-12.4
	Imports	294.0	607.0	640.0	+5.3
	Balance	-37.0	-41.0	-144.0	

* Data excludes following multilateral partners: Denmark, Norway, Australia, Canada, United States and Japan.

APPENDIX II

TRADE WITH SOCIALIST COUNTRIES 1970, 1971

(In million US\$)

	Imports	Exports	Turnover	Balance	Percentage 1971-70 change in turnover
Albania	4.2	2.5	6.7	-1.7	+37.0
	6.4	2.8	9.2	-3.6	
Czechoslovakia	197.9	185.1	383.0	-12.8	+17.0
	249.8	198.3	448.1	-51.5	
Bulgaria	48.7	26.3	75.0	-22.4	+27.0
	49.0	46.1	95.1	-2.9	
Poland	144.6	136.5	281.1	-8.1	+20.0
	150.6	187.0	337.6	+36.4	
GDR	261.1	218.2	479.3	-42.9	+17.0
	319.3	243.3	562.6	-76.0	
Romania	60.8	49.9	110.7	-10.9	+27.0
	73.4	66.7	140.1	-6.7	
USSR	829.5	808.8	1,638.3	-20.7	+15.0
	1,015.6	873.0	1,888.6	-142.6	
Yugoslavia	45.8	54.0	99.8	+8.2	+18.0
	61.8	56.2	118.0	-5.6	
China	12.6	8.4	21.0	-4.2	+45.0
	14.0	16.5	30.5	+2.5	
North Vietnam	0.7	17.2	17.9	+16.5	0
	1.5	16.4	17.9	+14.9	
North Korea	3.7	3.2	6.9	-0.5	-1.4
	4.0	2.8	6.8	-1.2	
Mongolia	1.7	4.4	6.1	+2.7	+41.0
	3.2	5.4	8.6	+2.2	
Cuba	5.7	5.0	10.7	-0.7	+121.0
	14.9	8.7	23.6	-6.2	

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APPENDIX III

TRADE WITH MAJOR WESTERN PARTNERS 1970, 1971

(In million US\$)

	Imports	Percentage change 1971-70	Exports	Percentage change 1971-70	Turnover	Percentage change 1971-70	Balance
Austria	97.7 117.1	+20	71.9 65.6	-9	169.6 182.7	+8	-25.8 -51.5
Belgium/ Luxembourg	28.1 36.5	+30	13.6 13.3	-2	41.7 49.8	+19	-14.5 -23.2
West Germany...	128.0 176.1	+38	158.7 144.9	-8	286.7 321.0	+12	+30.7 -31.2
France	52.0 83.0	+59	27.0 25.7	-5	79.0 108.7	+8	-25.0 -57.3
Netherlands ...	38.2 41.7	+9	24.7 29.4	+19	62.9 71.1	+13	-13.5 -12.3
Italy	97.0 120.8	+25	126.4 138.0	+9	223.4 258.8	+16	+29.4 +17.2
Sweden	22.3 27.5	+23	22.5 20.5	-9	44.8 48.0	+7	+0.2 -7.0
Switzerland ...	57.2 56.4	-1	78.4 65.6	-16	135.6 122.0	-10	+21.2 +9.2
United Kingdom	92.5 92.5	0	55.9 49.3	-12	148.4 141.8	-4	-36.6 -43.2

APPENDIX IV

TRADE WITH CERTAIN DEVELOPING COUNTRIES 1970, 1971

(In million US\$)

	Imports	Exports	Turnover	Balance	Percentage change in turnover
Argentina	12.6	0.7	13.3	-11.9	-49
	5.0	1.8	6.8	-3.2	
Brazil	14.8	8.4	23.2	-6.4	-34
	13.4	2.0	15.4	-11.4	
India	23.2	21.8	45.0	-1.4	+3
	26.5	19.9	46.4	-6.6	
Indonesia	0.2	0.7	0.9	+0.5	-11
	0.2	0.6	0.8	+0.4	
Iraq	0.6	5.5	6.1	+4.9	+38
	0.9	7.5	8.4	+6.6	
Iran	14.9	10.7	25.6	-4.2	-30
	7.0	10.9	17.9	+3.9	
Morocco	4.3	1.2	5.5	-3.1	-20
	3.8	0.6	4.4	-3.2	
Pakistan	5.0	6.6	11.6	+1.6	+6
	7.7	4.6	12.3	-3.1	
Sudan	4.8	4.6	9.4	-0.2	+11
	5.5	4.9	10.4	-0.6	
Syria	5.4	6.3	11.7	+0.9	-6
	3.3	7.7	11.0	+4.4	
UAR	17.6	23.2	40.8	+5.6	+1
	15.4	25.7	41.1	+10.3	

APPENDIX V

FOREIGN TRADE COMMODITY COMPOSITION 1971

(In million US\$)

	Imports		Exports	
	Socialist countries	Non-Socialist countries	Socialist countries	Non-Socialist countries
Fuels, electric energy	196.5	20.3	12.0	7.8
Raw materials, semi-finished products	844.0	578.7	382.3	294.3
Machinery and transport equipment ...	603.5	158.2	582.3	57.6
Industrial consumer goods	203.3	60.7	430.8	140.8
Raw materials for food industry, food products	116.3	208.2	315.7	276.9
Total	1,963.6	1,026.1	1,723.0	777.4

APPENDIX VI

FOREIGN TRADE COMMODITY COMPOSITION SOCIALIST/
NON-SOCIALIST COUNTRIES 1969, 1970, 1971

(By percentage)

Imports		Commodity	Exports	
Socialist countries	Non-Socialist countries		Socialist countries	Non-Socialist countries
12	0	Fuels, electric energy	1	2
11	1		1	2
10	2		1	1
48	64	Raw materials, semi-finished products, spare parts	23	38
45	60		24	42
43	56		22	38
23	13	Machinery, transport equipment, other capital goods	34	6
27	12		35	7
31	16		34	7
9	5	Industrial consumer goods	25	18
12	7		23	16
10	6		25	18
8	18	Raw materials for the food industry, live animals, food products	17	36
5	21		17	33
6	20		18	36

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APPENDIX VII

**HUNGARY: BALANCE OF PAYMENTS POSITION WITH
GATT COUNTRIES***

(In million US\$, converted at Forint 11.74 to \$)

I. GOODS AND SERVICES, TRANSFER PAYMENTS

	1968	1969	1970	1971	Jan.-June 1972†
(A) Exports	812	998	1,148	1,259	659
Imports	838	878	1,202	1,498	728
Trade balance	-26	+120	-54	-239	-69
Freight and insurance	-50	-52	-66	-85	-42
Travel	+12	+24	+29	+48	+22
Government expenditure	-7	-9	-10	-10	-8
Investment income	-25	-41	-47	-41	-19
Other current payments	+51	+35	+35	+95	+40
(B) Transfer payments	+14	+16	+17	+19	+9
Balance on current accounts	-31	+93	-96	-213	-67

II. MOVEMENTS OF CAPITAL AND MONETARY GOLD‡

	1968	1969	1970	1971	Jan.-June 1972†
Long-term capital movements:					
Assets	-5	-7	-16	-8	-
Liabilities	+40	+51	+99	+165	+44
Short-term capital and monetary movements:					
Assets	+23	-178	-323	-232	-171
Liabilities	-27	+41	+336	+288	+194
Balance of capital movements and monetary gold	+31	-93	+96	+213	+67

* Includes Poland, Yugoslavia, and Czechoslovakia.

† Preliminary figures only.

‡ - increase of assets and decrease of liabilities.

+ decrease of assets and increase of liabilities.

APPENDIX VIII

HUNGARY: MULTILATERAL TRADING PARTNERS

Europe

Austria (from April 1972)
Belgium
Denmark
France
German Federal Republic
Italy
Luxembourg
Netherlands
Norway
Spain (from January 1973)
Sweden
Switzerland
United Kingdom
Yugoslavia (from January 1972)

Others

Argentina
Australia
Cameroun
Canada
Iraq
Japan
Lebanon
United States
Uruguay

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APPENDIX IX

FINANCING TRADE WITH MULTILATERAL PARTNERS

The main sources of finance for deficits on the visible convertible currency trade account have been officially guaranteed credits and also the Western capital market. Outstanding indebtedness at end 1970, the latest available date, on officially guaranteed medium and long-term credits to individual Western countries is listed in the table below. These figures include credits agreed but not necessarily drawn down and prospective interest over the full amortisation period. Since 1968 Hungary has obtained medium-term bank loans totalling \$180 million (maturities three to five years) which have helped to finance expansion in selected industries, notably aluminium and pharmaceuticals; she has also raised a \$25 million Eurobond loan, the first such loan by a Communist country, and has come on the market for a further loan (\$50 million) later this year.

								\$ million
Belgium	...	...	...	...	...	...	...	16.8
Denmark	...	...	...	...	...	...	...	0.5
France	...	...	...	...	...	...	...	20.3
West Germany	23.9
Italy	26.5
United Kingdom	63.8
Canada	6.3
United States	0.8
								<hr/> 158.9

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