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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF INDIVIDUAL
EUROPEAN COUNTRIES: HUNGARY

Note by the United Kingdom Delegation

Note by the Secretary

Attached is the study prepared by the United Kingdom Delegation on the current problems and future prospects of the Hungarian economy. This document will serve as the basic paper during the third examining session on the Hungarian economy to be held on 30th October, 1969.

2. Delegations are invited to send to the Economic Directorate any comments on this paper or any additional information on the subject which they might wish to make available to the Sub-Committee.

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OTAN/NATO,
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THE HUNGARIAN ECONOMY

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The aim of this study is to examine the current economic situation of Hungary, and in particular to assess the introduction of the economic reform programme in 1968.

SUMMARY

2. Hungary has a per capita GNP smaller than most NATO countries, but fourth in Eastern Europe after the Soviet Zone, Czechoslovakia and the USSR. The deficient raw material base and small domestic market have made her more dependent on foreign trade than any other East European country.

3. Industry now accounts for 57 per cent of the national income, and employs a greater proportion of the labour force than agriculture. The emphasis on heavy industry largely continues under the present Five Year Plan, but rationalisation and the development of the more sophisticated sectors, particularly petrochemicals and engineering, have been given priority. Industry and construction will probably absorb 46 - 50 per cent of total investment in the 1966-70 period. (paragraphs 18-20).

4. The New Economic Mechanism (NEM), outlined in 1966, was introduced at the beginning of 1968. This economic reform programme, involving a considerable degree of decentralisation, aims to create a more competitive economy in order to increase Hungary's international competitiveness, and aims to make the state planning machine more effective by the delegation of ordinary operational management decisions. Much more responsibility now rests with the enterprise director, and profitability has become the main success indicator. Progress towards a more realistic pricing system, a crucial issue, will be very slow, and in the early stages of the reforms, the central state organs retain very considerable powers in all fields of the economy. (paragraphs 21-22, Annex I).

5. In 1968 growth rates were generally below those of the previous year, though they were more or less in accord with the plan. National income and gross industrial output both rose by 5 per cent, and despite the drought, agricultural output increased, though marginally. The rate of growth in industrial productivity declined strikingly compared with the previous two years, to some extent a result of government action to prevent widespread unemployment under the N.E.M. The cautious price policy and large state subsidies continued to constrain the development of competition. The total income of the population rose by 8 per cent, above plan, and though there was a rise in the standard of living, the high growth of personal savings pointed to a considerable excess demand for certain consumer goods. In itself, the introduction of the NEM imposed caution in most sectors of the economy, and it can so far only be judged successful in that economic stability has been maintained. (paragraphs 23-37).

6. The same moderate growth rates are likely in 1969. Industrial production is so far rising less rapidly than in 1968, and labour productivity shows little improvement. The distribution of profit shares early in the year was followed by a rapid increase in demand, and by unexpected price increases for certain consumer goods. It promises to be another year of cautious introduction of a new system of economic management. (paragraphs 37-39).

7. Some 70 per cent of foreign trade is currently with the Communist countries (over half of this with the USSR alone) and just under a quarter with the industrial West. NATO countries' share in 1968 was 17.4 per cent. The balance of trade in recent years has been generally unfavourable, particularly with the developed countries. Indeed, the consistently poor performance of Hungary's hard currency exports, and consequent balance of payments deficit, was one of the main factors motivating foreign trade reform. (paragraphs 40-45).

8. The East European countries (excluding the USSR) accounted for just over 31 per cent of total trade in 1968. The most notable increase has been in trade with the Soviet Union, which has now displaced Czechoslovakia as Hungary's second trading partner, after the Soviet Union. An important factor in this trade expansion is the increasing amount of co-operation between the two countries, particularly in production specialisation. (paragraphs 46-48).

9. Hungarian exports are spread fairly evenly over the four main commodity groups. Hungary is a major supplier of bauxite and alumina to the bloc, whilst the bulk of her machinery and equipment exports also go to other Communist countries. To the West, she exports chiefly foodstuffs which are an important source of convertible currency earnings. Over half of Hungary's imports consist of fuels, raw materials and semi-manufactures, although the share of machinery and equipment (mainly from the bloc) has been increasing. There has also been an expansion of capital investment goods from the West. (paragraphs 49-54).

10. Under the NEM provision was made for a thorough reorganisation of foreign trade procedures. Basically, a system of export incentives and import controls has been introduced, with the aim of improving the profitability of foreign trade, and above all exports. (paragraphs 55-56 and Annex I).

11. After some 18 months of operation the economic regulators appear to have had some impact on Hungary's trade balance which has improved considerably. However this has been achieved largely by cutting back imports rather than by an expansion in exports. In order to stimulate exports to convertible currency areas, further incentives have been announced for

1969. (paragraphs 57-60).

12. Hungarian economists have put forward proposals for closer economic co-operation with other Communist countries, e.g. over long term joint investment and more specialisation agreements, as well as in some form of convertibility. Some free trade has already been established, and the Hungarians have taken the initiative in promoting discussion on possible improvements in domestic trade exchanges and economic integration. Existing forms of co-operation cover a wide range of agreements on joint production, investment, and marketing. (paragraphs 61-66).

13. The Hungarians have also signed more co-operation agreements with the developed West than any other Communist country. These agreements, which are of a wide variety and range, are primarily aimed at improving the quality of goods produced for both internal consumption and for exports. Hungary has also been less dependent on Western credits than other bloc countries, and the size of medium and long term debt outstanding to NATO at the end of 1968 was $119.3 m. Hungary has however obtained Euro-dollar facilities, and raised $15 m. on the London market for the Hungarian aluminium industry. (paragraphs 67-73 and Annex II).

THE GENERAL DEVELOPMENT OF THE ECONOMY UNDER THE COMMUNIST REGIMES

14. Hungary is the smallest non-Soviet Warsaw Pact country, and its population of nearly 10.3 million is less than that of any European Communist country with the exceptions of Albania and Bulgaria. With an estimated per capita GNP of 1,230 US dollars (1967) Hungary may be considered to have attained an intermediate level of economic development; it has a smaller per capita GNP than most NATO countries, but in Eastern Europe only East Germany, Czechoslovakia and the USSR have larger GNPs per head. Although she has rich deposits of bauxite, and some low-grade brown coal and natural gas, Hungary's mineral resources are generally poor, and raw materials and semi-finished products comprise more than half the total imports. The deficient raw material base and the smallness of the domestic market have probably made Hungary more dependent on foreign trade than any other Eastern European country, doubtless explaining a good deal of her enthusiasm for economic reform.

15. Before the Communists seized power, agriculture was the predominant economic activity and textiles and food processing were the main industries, although some progress had been made in developing iron and steel, machine building and chemicals, particularly by the Germans during the war. Under the Communists industrialization has been much faster, and industry now accounts for 57 per cent of the national income compared with 45 per cent in 1950, and it employs 33 per cent of the

labour force. Over the same period agriculture's contribution to national income has fallen from 37 per cent to about 18 per cent, and in recent years agriculture has employed a smaller proportion of the labour force than industry.

16. In the early 1950s the high proportion of national income allocated for investment purposes and fluctuations in economic policy caused erratic growth. Industrial capacity increased at a faster rate than the supply of materials and power, and the emphasis on heavy industry was achieved only at the expense of consumption and agriculture. Furthermore, agricultural development was retarded by the antipathy of the peasantry to collectivization, and the state's failure to increase agricultural investments sufficiently to compensate for the declining labour force. The government's concern about the uncompetitiveness of the economy, and the need to improve the standard of living has led to a more realistic approach to planning since the late 1950s. A smaller proportion of national income has been invested, more attention has been given to rationalising raw material supplies to industry and to improving the energy balance, and the expansion of sectors producing goods with a high value-added content has been encouraged. Thus while heavy industry is still allocated the major share of investment, it is distributed more effectively with greater shares going to the chemical and engineering sectors. In agriculture, collectivization was largely completed between 1959 and 1962, but despite increased investments, progress has continued to be slow, and up to 1965 at least, the increased capital inputs were insufficient to counter the decline in the labour force. In recent years the government has been concerned to bring the material conditions of the peasantry more in line with those of industrial workers in order to reduce the outflow of labour from agriculture.

17. Under the Kadar regime there has been a modest increase in the general standard of living. Between 1960 and 1965 real wages rose by 1.8 per cent a year, and the range and quality of consumer goods, have increased modestly. Though shortages continue to be an endemic feature of the system, the regime has succeeded in raising the expectations of the population from the low level of 1957, and this in itself must be considered an achievement. Between 1957 and 1964 several measures were introduced to increase the efficiency of the planning system and the competitiveness of the economy. These included profit-sharing schemes, a general revision of producer prices, a reduction in the number of centrally planned indices, a charge on fixed and circulating assets, and a steady increase in industrial concentration. Nevertheless, the slowdown in economic growth during the Second Five Year Plan (1961-65) was considerably greater than had been envisaged. Industrial output increased satisfactorily, but because of the poor performance of agriculture, the national income plan was not fulfilled, and real wages also failed to increase satisfactorily. At the same time the problems of low productivity, high production costs, foreign deficit, inferior

quality goods and the poor utilization of investment funds worsened, and influenced the tone of the Third Five Year Plan, and the guidelines of the New Economic Mechanism (NEM).

18. THE THIRD FIVE YEAR PLAN (1966-70) is a continuation of the economic and potential policies on which the Second Five Year Plan was based, but does contain significantly fewer centrally planned targets. Growth rates are generally lower than in previous plans, and although the emphasis on heavy industry is maintained, it is less doctrinaire (Table 1). There is unlikely to be any change in the relative shares of the private and socialist sectors in national income, and the proportions of it absorbed by accumulation and consumption are also to remain virtually unaltered. The principal industrial objectives of the plan are to maximise valued added in production, which should help to minimise raw material imports, and to gear the industrial base to the more sophisticated needs of manufacturing industry, particularly the chemical and engineering sectors which are planned to grow at rates considerably above the average industrial rate (Table 2).

19. Agricultural output is planned to grow at an annual rate of 2.5-3.0 per cent, more than that actually achieved between 1961 and 1965. The main aims are self sufficiency in the production of bread grains and rough fodder, the production of sufficient products to satisfy the growing needs of the food industry and exports, and the improvement of the livestock situation. The need to reduce the outflow of labour is stressed, and to achieve this the more favourable attitude to private plots will continue, and the standard of living of the peasantry is to be brought closer to that of industrial workers. Although the aim to achieve self-sufficiency in bread grain production will be achieved, the planned improvement in the fodder and livestock situation will not take place.

20. The investment plan aims to improve both the capital intensiveness of industry and its regional distribution. It is expected that industry and construction will absorb 46-50 per cent of total investment, the share of agriculture and the non-productive sectors falling slightly.

THE REFORMS

21. After several years of discussion the Hungarians published the guidelines for the reform of the economic mechanism in May 1966, and subsequently the decrees necessary for the implementation of the proposals contained in the guidelines. The adopted title New Economic Mechanism (NEM) emphasises that this is a reform of the state economic administration designed in theory to make it more effective by delegating ordinary operational management decisions. A primary aim is to create a more competitive economy in order to increase Hungary's international competitiveness, and through a substantial growth

in exports in turn stimulate growth in the whole economy. A more flexible approach to planning has therefore been adopted. The Hungarians have accepted that central planning cannot effectively control all the complex relationships of a modern industrial economy, and that some self-regulation is necessary. For this to work it is necessary to provide the enterprise and the individual with incentives sufficient to encourage initiative and responsibility, particularly in the sphere of management. The NEM attempts to do this by the introduction of certain market forces, though these are regulated by the central authorities in an attempt to maintain a balance between individual and 'social interests'. If economic regulation fails to maintain this balance, the state retains and will use administrative measures to ensure it.

22. A detailed description of the reforms is given in Annex I. Much more responsibility now rests with the enterprise director, and profitability has become the main success indicator. Although the reform measures undoubtedly involve a considerable degree of decentralization, the central organs retain very considerable powers in all fields of the economy, and it is possible to exaggerate the liberalising nature of the NEM. Thus the detailed regulations governing the use of retained profits are designed to increase efficiency through financial incentives and penalties, but they also offer scope for considerable manipulation by the state authorities. Similarly, the categories of investment which can only be initiated by the state cover a substantial proportion of the investment field, and changes in the pricing system are at present more apparent than real. An examination of the measures outlined in Annex I leaves the impression that the checks and balances are fairly subtle, and that much will depend on the way in which they are actually implemented. The approach is pragmatic, leaving ample scope for modification.

DEVELOPMENT UNDER THE THIRD FIVE YEAR PLAN: 1966 and 1967

23. In 1966 and 1967 the economy recovered from the low growth of 1965, and aggregate growth was faster than planned (Table 1). Productivity accounted for 80 and 65 per cent of the increase in industrial output in 1966 and 1967 respectively, and at the same time costs were lowered, and employment increased less rapidly than during the Second Five Year Plan. There was a particularly marked increase in the output of light industry in 1967 (Table 2) because of Government plans to ensure sufficient supplies of consumer goods in 1968. The annual plans for 1966 and 1967 stressed the need for economy in investment, and a reduction in the volume of uncompleted construction work. In the event investments were 7 per cent greater than planned in 1966, the table 5 shows that the stock of uncompleted investments which had fallen marginally in 1965 rose again. In 1967 the situation further deteriorated as a result of the 20 per cent increase in investment, but this was predictable since this was the last year of free investment, and uncertainty about capital goods prices and the availability of imported Western machinery in 1968 encouraged

enterprises to press more strongly for investment funds. In addition, the government undertook to finance from the budget the cost of completing all enterprise projects more than 80 per cent complete at the end of 1967, and to contribute to the cost of projects more than 20 per cent under way, and this was clearly an extra spur to investment. Agriculture, encouraged by the price increases of 1966 and other economic and social measures, recovered from the poor returns of 1965, and crop yields were, on the whole, well up on the 1961-65 averages. Poor fodder crops in 1967 created problems in the fattening of livestock however, and imports of meat were necessary.

24. The rises in production and productivity permitted modest increases in the population's income. The effects on consumer spending of the price increases in solid fuels, transport fares and agriculture at the beginning of 1966 were less marked than expected, partly because prices of seasonal goods fell with the good harvest, and because consumer demand shifted from goods whose prices had risen to those whose prices had fallen such as clothing. Increases in earned incomes were supplemented by substantial increases in pensions and family allowances, which particularly benefited the peasantry and reduced the gap between the income levels of the peasantry and industrial workers. Thus while the real income of workers and employees rose by 5 per cent in 1966 and in 1967, that of the peasantry rose by 7 and 10 per cent respectively.

THE 1968 RESULTS

25. At the time of the introduction of the NEM on January 1st 1968, some observers believed that 1968 would be a year of economic instability and that prices and unemployment would increase considerably as central control of the economy was relaxed. Table 1 shows that the development of the economy was generally in accord with the annual plan. National income and gross industrial production both rose by 5 per cent, and the increase in industrial output was achieved despite the introduction of a shorter working week in many industrial sectors. There was no appreciable unemployment or inflation. After the 8 per cent increase in producer prices at the beginning of 1968 the industrial price index rose by no more than 0.5 per cent during the year. Employment increased by 90,000 (3 per cent) and industrial employment by 60,500 (3.8 per cent), and while this adversely affected labour productivity it calmed fears of unemployment. Although agriculture was affected by drought in 1968, gross agricultural output increased by about 1 per cent, a better result than at first expected. The monetary income of the population rose by over 8 per cent, due partly to the increase in employment and partly to the rise in average incomes. At the end of the year the labour force received higher profit shares than ever before. The Hungarians claim that the introduction of the NEM was successful, but the low growth in productivity, shortages of certain materials,

the rise in industrial and retail stocks, and the disappointing growth in exports to the West indicate that this claim is justified only in so far as economic stability was maintained.

Industry

26. During 1968 continued progress was made in improving the industrial infrastructure. The supply of energy to industry imporved and by the end of 1968 natural gas and oil accounted for approximately 39 per cent of total fuel consumption, the proportion originally planned for 1970. The engineering and chemical sectors again grew more rapidly than aggregate industrial output, reflecting the considerable capital investments in recent years (Table 6). As a result of substantial stocks of materials at the beginning of the year (15 per cent more than in 1967) and increased imports, supplies of materials to industry were generally adequate, but shortages of certain building materials continued, and in the iron and steel industry the shortfall of thin sheet and high quality steel and scrap persisted. The situation was aggravated by the abolition of the central allocation of materials, and some processing enterprises built up stocks in anticipation of demand which did not always materialise, to some extent creating shortages at other enterprises.

Agriculture

27. In 1968 gross agricultural production rose by about 1 per cent, the shortfall in crop production being offset by the rise in output of animal products. The effect of the drought on crop production was less severe than at first expected, because increased fertiliser deliveries and the larger irrigated area contributed to good yields. While imports of vegetables, potatoes and fodder were necessary, the demand for bread grains was again met from domestic production. Several measures were introduced to increase production and encourage financial independence, including higher state procurement prices, opportunities for direct sales and the reorganised taxation system. The establishment of profit-sharing funds enabled guaranteed wages to be paid in most co-operatives, and together with the extension of ancillary activities by co-operatives helped to maintain employment at the 1967 level. Despite these incentives, about 820 'weak' co-operatives required subsidies to remain solvent, and in several cases it became apparent that even this support would not ensure future economic viability. To deal with this problem, a decree was published in October 1968 which enables the authorities to either reorganise the management of such co-operatives to ensure financial independence, or to merge them with other co-operatives. As nearly 30 per cent of all agricultural co-operatives are thereby affected, production and agriculture's export potential should, in theory, rise.

28. Improvements in financial and social conditions, for example through the payment of guaranteed wages and increased family allowances, helped to maintain the employment level

in 1968, but the problem of underemployment remained. Co-operative management found it difficult to guarantee adequate job opportunities, and members consequently found it difficult to accumulate the necessary number of working days for entitlement to social benefits and household plots. The extension of ancillary activities requires investments which a weak co-operative cannot afford, and can provide, therefore, only a limited solution at present. The recognition of work-time spent in animal husbandry on the household plot as contributing to compulsory working days as well as stimulating livestock rearing, also shows some realism in solving membership and social benefit qualification problems.

29. Progress has been made in increasing fertilizer inputs and the area of land irrigated (Table 9), but tractor deliveries have fallen short of the 8,000 per annum foreseen in the Third Five Year Plan. As a result the ratio of obsolete tractors to total tractors has shown a considerable increase. In 1967 only 6,213 new tractors were delivered to agriculture, and in 1968 the figure fell to 3,200. This decline is partially explained by increased building investments to improve storage facilities and animal shelters, but more relevant are the high prices of Hungarian tractors, the fact that co-operative depreciation allowances are often insufficient to cover the costs of modern equipment, and the 58 per cent subsidy for tractor repairs and spare parts. The government has recognised the seriousness of the situation, and to remedy it repair and spare part subsidies have been withdrawn or reduced, and recommendations have been made that machinery depreciation allowances be increased.

30. In general agricultural supplies to the population and the food industry were adequate in 1968, although poor vegetable and potatoe crops led to high prices and imports. In contrast to 1967 when meat imports had been necessary, meat supplies last year were plentiful. This did not however, reflect any improvement in the long-term supply situation, but was a fortuitous result of the unplanned increase in the number of livestock slaughtered because of the drought and the associated fodder shortages. In addition meat had to be exported to pay for fodder imports. Instead of the anticipated improvement in livestock numbers a sizeable fall occurred, particularly in the number of cows and sows, (Table 7) which will adversely affect the supply situation for several years and reduce agriculture's foreign exchange earnings. The drought was the immediate cause of this problem, but the costs of rearing animals are still generally above selling prices, and the low level of mechanisation on household plots has also done little to improve the situation. In order to stimulate a rapid recovery in livestock numbers, increased subsidies for cattle rearing have been granted and farmers signing contracts for milk deliveries can now get fodder at 30 per cent below the market price. The state has also started free market sales of maize fodder to reduce the market price, and is supporting

the practise of giving co-operative members collective work-time credits for cattle breeding on household plots. Even with these measures no immediate improvement is possible. Already in 1969 meat is to be imported, and the domestic supply situation will be a constraint on the development of the food industry.

31. The effects of the Co-operative Law and Land Law are as yet not clear. It has been stated that 100,000 of the 110,000 applications for membership of co-operatives have been accepted. The situation regarding the collectivization of land is less clear, although it has been reported that only 10 per cent of the applications for exemption of land from collectivization, and 34 per cent of the applications for the withdrawal of land for personal use have been accepted.

Profits and Investment

32. Profits were greater than anticipated partly because of the safety margin embodied in the 8 per cent increase in producers' prices at the beginning of 1968, but it is also generally admitted that subsidies are still too high. Even though retained profits were larger than expected and the scope for decentralised investment by enterprises was greater than before, the rise in investment was no greater than planned, indicating that the government still has effective control over investment. Various elements combined to restrict the rise:

a. The value of investments increased by 17 per cent, but this was mainly due to the higher prices of building materials in short supply - itself a disincentive to investment.

b. The capacities of the construction and building materials industries were stretched to the limit, and there was a decline in machinery imports.

c. Only 40 per cent of funds accumulated in 1967 by enterprises could be used in 1968.

d. Enterprises were obliged to contribute to the costs of completing projects started with state loans in 1967, and these projects took priority.

e. The government imposed a ceiling on the total amount of bank credit available to enterprises, and competition for credit was intense.

33. In 1969 the total credit available to enterprises will not increase, and in order to ensure its effective use, more stringent credit terms have been introduced. Short term loans, for example, are to be used for seasonal and transitory projects only. Priority will be given to enterprises with

good export records, and the repayment period for long term loans to exporters will be increased to 12 years at 6 per cent. In addition special privileges will be given to enterprises exporting to capitalist countries. In order to stimulate agricultural investment, which fell in 1968, agricultural credits will carry an interest rate of 5 per cent, not 6-8 per cent. Enterprise development funds are expected to be a little higher this year than in 1968, but because of the extension of charges on fixed and circulating capital to capital financed by loans, enterprises may be less willing to borrow from the banks, and the total amount of decentralised investment is unlikely to have much effect on aggregate investment. This means that the government's policy of limiting new investment should continue to work effectively.

Productivity

34. Industrial productivity rose by only 1.1 per cent in 1968 although its improvement is a primary aim of the NEM. The New Labour Code enables enterprises to dismiss unnecessary labour, but in its concern to prevent widespread unemployment, the government imposed a 4 per cent limit on basic wage increases in 1968. This regulation maintained full-employment but increased underemployment as enterprises were reluctant to dismiss unnecessary labour and preferred to expand their labour force. The introduction of a shorter working week in many industrial sectors meant that in order to maintain production labour forces were often increased rather than re-organised. Most of the increase in industrial production also came from the provinces where labour intensive methods were often cheaper than capital intensive ones. In 1969 productivity is planned to rise at a faster rate, and the restriction on wage increases has been lifted. Instead of the basic wage level, average wages will be used when determining the size of the profit sharing fund in 1969, and this could diminish the tendency to employ more labour rather than utilize the existing labour force more effectively. Problems with regard to productivity will however continue as the shorter working week is introduced in more enterprises, and as long as labour is available many enterprises will continue to expand their labour forces.

Competition

35. The maintenance of fixed or maximum prices for many raw materials and considerable state subsidies continue to act as constraints on the development of competition. Although the government has asserted that it will reduce subsidies where possible, little change is likely in the near future. Quantity rather than quality still persists in some spheres, but this situation ought to improve as the charges on fixed and working assets begin to bite, and their scope has been extended in 1969

to include assets financed by state loans. Price competition has so far been insignificant, and limited to products such as detergents. There are indications that producers contemplating price reductions have been reluctant to act because of the unwillingness of the retail trade to pass these cuts on to the consumer. The rise of unsaleable stocks suggests that enterprises frequently pay too little attention to the market demand for their products. The closure of two small inefficient enterprises and the formation of a joint stock company does show that the government has taken tentative steps towards experimenting with more flexible systems, and it has followed the Rumanian example of establishing an ILO sponsored management training school, which might ultimately improve managerial expertise.

Standard of Living

36. In 1968 the government's main concern was to prevent a fall in the standard of living, and towards the end of 1967 relatively large quantities of consumer goods had been imported to cushion the internal market against possible dislocations following the introduction of the reforms. Because of this stock build-up, retail trade sales rose by 7 per cent and supplies of consumer goods were more plentiful than ever before, even though light industry output increased by only 2.8 per cent. There were, however, shortages of building materials, and shortages as regards choice and quality became apparent in a wide range of manufactured consumer goods. After the 1.5 per cent reduction in aggregate prices in January the increase over the year was no more than 2 per cent, and the retail price index in December 1968 was 0.5 per cent, above the December 1967 level. This overall price stability, which was maintained by fixed or maximum prices for 50 per cent of consumer goods, concealed the considerably higher prices for certain goods. For example, vegetables were 17 per cent dearer, footwear 9-11 per cent, and some clothing prices 8-19 per cent. These increases were matched by lower prices for other commodities such as butter and cheese. The total income of the population rose by 8 per cent mainly because of the increase in employment, but also on account of the rise in average earnings and the substantial rise in the income of the peasantry. Real wages of workers and employees rose by 2-2.5 per cent, and real income by 5-5.5 per cent, benefiting from the considerable increase in profit shares over 1967. Despite the increase in profit sharing complaints were voiced abouts its distribution, and workers felt that disproportionate shares were going to the already better paid categories of employees. With the lifting of the 4 per cent limit on wage increases in 1969, the enthusiasm of the ordinary working grades for the new system might increase.

37. The government's statement that the standard of living has risen is no doubt true, given the aggregate price stability and the 5 per cent increase in social benefits. Most price reductions were for foodstuffs however, and most rises for clothes and household goods, sometimes of a type and quality

not in demand (this is indicated to some extent by the rise in retail stocks). Personal savings also increased by 17 per cent, pointing to considerable excess demand for certain consumer goods. In 1969 the retail price index is expected to rise by 1-2 per cent and free market prices by 3-4 per cent. The government is maintaining its policy of adjusting fixed category prices to changes in supply and demand conditions, and price changes as a result of simplifications in turnover taxes on clothes and food will balance each other. The range of free market prices is being increased to cover 30 per cent of total consumer goods. The concern of the government regarding the supply of goods to the consumer and the provision of services (the prices of which rose by 4 per cent in 1968) resulted in new guidelines for private trade. Licences can now be issued in 70 trades in order to improve the supply of goods, and to compensate for the inadequate network of state-owned and co-operative retail shops. The housing situation showed some improvement in 1968 when 67,000 apartments were built, 8 per cent more than in 1967. But the housing shortage remains a serious problem.

THE 1969 PLAN

38. The 1969 plan differs little from that of 1968, and has largely been determined by the experiences of last year. Even though the reforms were introduced successfully, the Hungarians remain cautious in their approach. Once again moderate growth rates are planned, and the improvement of the industrial infrastructure continues to be given priority. The increase of self-financed investment, which rose from about 10 per cent in 1966 to 40 per cent in 1968, means that the state is able to concentrate its investment resources more effectively, and during 1969 its investment in agriculture and on public works is to increase more than industrial investment. The shortage of capacity in the construction and building materials industries will continue to hinder the state's investment plan, and it is probable that the number of projects complete will be lower than planned. An appreciable increase in labour productivity is hoped for, but so far there has been no improvement. Industrial production is rising less rapidly than during the same period of 1968, and this together with the extension of the shorter working week, is making any improvement in productivity difficult. The agricultural plan should be fulfilled, and grain yields are expected to be slightly above last year's but there will be little improvement in the supply of livestock products.

39. So far 1969 has not been a particularly good year for the consumer. Meat supplies have been poor, vegetable prices have been high, and the rapid increase in demand for consumer goods after the distribution of profit shares earlier this year led to unexpected prices rises. Changes in turnover taxes on clothing articles in May also led to further price changes.

Real wages are planned to rise by only 2 per cent, and it has been stressed that any further increase will depend primarily on improvements in productivity and the competitiveness of Hungary's exports. All the indications are that despite the reform measures, progress in this direction will be slow.

HUNGARY: FOREIGN TRADE

Current Position

40. As a small country with comparatively few natural resources, Hungary depends to a great extent on foreign trade for the growth of her economy. Its importance is well illustrated by the fact that exports represent some 13.6% and imports 14.2% of estimated GNP, (1) whilst trade turnover in recent years has grown much faster than GNP. Between 1960 and 1968 the average annual increase was 8.5%, with exports showing a more rapid rise than imports. During the current Five Year Plan period (1966-1970) trade is planned to increase by 46%, an average annual rate of 7.9%; however, results for the first three years (1966-1968) have fluctuated widely, total turnover increasing by 4.3%, 10% and 3.3% respectively. The biggest increase has been with the Communist countries, whose share of Hungarian foreign trade reached 70% last year. The USSR also increased its percentage share from 33% in 1966 to 37%, whilst in absolute terms Soviet-Hungarian trade since 1966 has expanded even more rapidly than with the bloc as a whole. With the non-Communist countries, however, performance in this three-year period has been disappointing, particularly with regard to exports. The share of the industrially developed countries of the West last year dropped back to the 1960 figure (24.2%), and there was a drop in the actual value of both Hungarian exports to, and imports from, this area. Trade turnover with the developing countries in 1968 also fell (for the second year running), both in absolute terms and as a percentage of the total (5.6%) (see Tables 14 and 15). The plan for 1969 provides for a rise of 6-7% in total turnover. Trade with the Communist countries is expected to increase by 7% (exports 6%, imports 8%), and with the non-Communist countries by 5%.

41. Except for a small surplus in 1961, and a somewhat larger one in 1966, Hungary has had an unfavourable balance of trade in recent years, although last year the deficit was reduced considerably - due to a much improved trade balance with the

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(1) For comparison, the corresponding percentages for Denmark - a country with a similar-sized GNP - are 21.1% and 26.8%. For Rumania, with a somewhat larger GNP, the figures are 7.9% and 8.8%.

Soviet Union. With her non-Communist partners, however, and especially with the industrially developed sector, Hungary has had a continuing unfavourable trade balance throughout the sixties (apart from a very small surplus in 1966). It was this persistent imbalance with the West, stemming largely from the poor performance of exports, - above all those to the hard currency areas - which prompted the measures for re-organisation of Hungary's foreign trade, as part of the New Economic Mechanism introduced last year. Some of the aims and details of the proposed reorganisation are given in Annex I.

<u>Trade with NATO Countries</u> (See Table 16)

42. Hungary's trade with her NATO trade partners over the period 1963-68 has increased by 38.3%, an average annual rate of 6.7%. Exports have grown at a somewhat faster annual rate than imports (7.4% and 6.2% respectively), although as the Table shows, the increases from year to year for both exports and imports have fluctuated widely. Germany remains Hungary's main NATO trading partner, followed by Italy, the UK, and France. The value of turnover with all four countries was reduced in 1968, most of all in the case of the Federal Republic, where Hungarian imports fell by nearly 23%, thereby reducing the considerable deficit on trade account with this country in 1967. Taking NATO countries as a whole, there has been a big drop in the Hungarian deficit from the high level of $83 millions in 1964, to $31 millions in 1968. In the last three years 1966-68, the expansion of exports has just kept pace with that of imports, and in fact last year both exports to and imports from the NATO countries fell slightly in value terms.

43. The trend in the last few years has been to replace one-year bilateral trade agreements with Western countries by long-term (mostly four or five years) agreements, within which annual protocols are negotiated. Among long-term agreements in operation are those between Hungary and the United Kingdom, France, Italy, Austria, Benelux, Denmark, Finland, West Germany, Greece, Norway, Sweden, Australia and Canada. In November 1966 Hungary was granted the status of observer with GATT and she has now applied for full membership. She has also made frequent enquiries about establishing relations with the EEC.

<u>Trade with the Soviet Union</u> (See Tables 14 and 15)

44. The Soviet Union is Hungary's main trading partner, accounting for 37% of total turnover in 1968. Between 1960 and 1968 trade between the two countries increased by 138%. For the period 1963-68 the increase was 54.7%, an average annual growth of 9.2% - higher than for trade as a whole. About 40% of <u>Soviet exports</u> consist of raw materials and semi-finished products; indeed the USSR is the main source of supply for Hungary's raw materials needs, providing about half

of total raw materials imports. Soviet deliveries cover nearly all Hungarian import requirements for crude oil, petroleum products, iron ore and pig iron; the bulk of phosphate fertiliser, timber and electric power imports, and about half of all imports of coke, cotton and rolled steel. The USSR is also supplying Hungary during the current Five Year Plan period with machinery for chemical processing factories, equipment for processing crude oil, and mechanical equipment for development of the rubber industry. Machinery and equipment predominate in Hungarian exports to the Soviet Union, in particular motor vehicles, diesel locomotives, ships, cranes and communications equipment. About 50% of Hungarian exports to the USSR comprise products of the engineering industry. Under a long-term agreement with the USSR, Hungary is exporting some 40 dye, lacquer and chemical factories over the current Five Year Plan period (1966-70). Other valuable exports include metal-cutting machine tools, equipment for the food industry, medical equipment and pharmaceuticals. In 1967 it was stated that sales of pharmaceuticals were sufficient to pay for all Hungarian oil imports from the Soviet Union and between 1968 and 1970 Hungarian deliveries of these are to total some $133 million. The Soviet Union will also continue to provide a stable and unlimited market for Hungarian industrial consumer goods and agricultural products.

45. Hungary had a continuing deficit in trade with the USSR up to 1966 ($135.6 million for the period 1960-66). However, some of this imbalance probably reflects drawings on Soviet credit extended for utilisation during the second Five Year Plan (1961-65). In 1966 the balance of trade was in Hungary's favour and this trend has continued in 1967 and 1968, giving Hungary a cumulative surplus of $76 millions over the three years 1966-68. This increase in Hungary's exports would appear to reflect partial repayment of earlier Soviet credits, which are due to be repaid by 1970. By that date Hungarian-Soviet trade should have increased by 50%, according to the plan, i.e. at an annual average rate of 8.4%. So far, however, the annual increase (7.1%) for 1966-68 has been below plan. In fact, Hungarian-Soviet exchanges in 1966 actually dropped in value, although the reduction is more apparent than real, following on the introduction of new prices in intra-bloc trade which have tended to work in favour of raw materials importers. The 1967 turnover, despite a shortfall in Soviet deliveries of agricultural machinery, motor vehicles and computing equipment, rose by 15.4% and in 1968 the rise was 10% (against an anticipated 20%). The 1969 protocol provides for an increase of 7%, which seems a more realistic figure and is in line with the average annual rate achieved for 1966-68. Negotiations for exchange of goods in the period 1971-75 have already started, and according to a recent statement by the Hungarian Minister of Foreign Trade, special attention is to be paid to reciprocal deliveries of machinery. The Soviet Union has expressed a desire to increase the share of machinery

and equipment (at present 25%) in its exports to Hungary, to achieve a more balanced trade structure. At the same time, Hungary is anxious to maintain and if possible, increase the present proportion of such deliveries to the Soviet Union.

Trade with Eastern Europe (See Table 17)

46. The East European Communist countries (excluding the Soviet Union) accounted for just over 31% of Hungary's total trade in 1968. Turnover during 1963-68 has increased by 36.8%, an average annual growth of 6.5%. As in trade with NATO countries, Hungarian exports to East Europe expanded at a faster rate than imports from this area, (7.1% and 5.9% respectively). The most notable increase has been in trade with the Soviet Zone (54.8%), which in 1966 displaced Czechoslovakia as Hungary's second main trading partner. Hungarian exports to the Soviet Zone have been expanding steadily in recent years, and the Hungarian Foreign Trade Minister, Joseph Biro, reviewing progress in 1968, referred to "dynamic" development in his country's trade with the Zone. The rise in Hungary's exports is mainly in engineering products, which also feature prominently in Hungarian imports from the Zone, whose supplies of chemicals are also of increasing importance for Hungary's agriculture and fast developing chemical industry. An important factor in the expansion of exchanges between these two countries is the growing amount of co-operation, notably in production specialisation, joint research and direct inter-enterprise co-operation agreements. Similar long-term agreements for joint research, co-operation and specialisation between Hungarian and Czech firms have been concluded in the fields of machine tools, medical and electronics equipment, machine building and mining machinery, and tele-communications, which should form the basis for a further development of Czech-Hungarian trade.

47. Trade with Poland, Hungary's fourth trading partner, has increased by 35% over the period 1963-68, with imports growing much more rapidly than exports. An important part in total turnover is the mutual delivery of raw materials and semi-finished goods. Mutual exchanges of machinery and equipment have also increased rapidly both in actual terms and as a percentage of total Hungarian and Polish exports. This gives a good indication of the change in the structure of trade between the two countries in recent years, as a result of their growing industrialisation.

48. Hungary's main trading partners, Communist and non-Communist, for 1967 and 1968 are listed in order of priority in Table 18.

Commodity Composition of Foreign Trade (See Tables 19 and 20)

49. Exports. These are spread fairly evenly over the four

main commodity groups. Fuels, raw materials and semi-finished products formed 28% of total exports in 1967, half being exported to other Communist countries. Hungary is a major supplier of bauxite to the Soviet Zone, Poland and Czechoslovakia, and of alumina to the Soviet Union and Poland. In 1967 exports of alumina to the USSR totalled 56,000 tons, and under the 1962 Aluminium Agreement between the two countries supplies are expected to increase to 330,000 tons by 1980. The processed alumina is sold back to Hungary as aluminium ingots, for manufacturing purposes, or for re-export as crude aluminium and finished goods.

50. Machinery and equipment (mainly transport equipment) comprise a further quarter of Hungarian exports, nearly all of which goes to other Communist countries. Telecommunications equipment and pharmaceuticals, both fast developing branches of industry, are mainly for the Soviet market, although exports of such products to the West are expanding.

51. Industrial consumer goods and foodstuffs make up the remainder of Hungarian exports (47%). Indeed, exports of foodstuffs (processed foods, meat and wines) to countries outside the bloc provide one of the main sources of Hungary's convertible currency earnings, these countries taking over half of total food exports.

52. Imports. Hungary is poor in mineral resources, and more than half of her imports consist of fuels, raw materials and semi-finished products. The main source of supply is the Soviet Union, 60% of whose exports to Hungary are made up of raw materials. In 1967 the Soviet Union provided nearly all Hungarian imports of crude oil, petroleum products, iron ore and pig iron; 88% of phosphate fertiliser and 77% of electric power imports.

53. Under the current five year trade agreement with the USSR, Hungary will receive 16 million tons of crude oil over the period 1966-70, most of it through the Czechoslovak branch of the Friendship pipeline, the annual capacity of which will soon reach 5 million tons. Last year Soviet supplies were to total 3.2 million tons, a 15% increase over 1967. Although marginal imports of Iranian oil have been contracted for the bulk of oil supplies through the 1970s will continue to come from the Soviet Union, and by 1975 estimated Hungarian requirements will reach 6.5 million tons. Coal and coke are supplied by the USSR, Poland and Czechoslovakia. Although Hungary is at present self-sufficient in natural gas a pipeline, yet to be constructed, will start supplying Soviet gas from 1975 onwards, at a rate of about 1 milliard cubic metres per annum.

54. Machinery and equipment imports, as a share of the total import, have been growing and now account for nearly a quarter. The bulk of such machinery comes from other Communist countries - above all the USSR and the Soviet Zone. However Hungary's need for advanced capital investment goods had led to an expansion

of such imports from the West, the main suppliers being Germany, the United Kingdom, Switzerland and Italy. Imports of foodstuffs and raw materials for the food industry account for the remainder of Hungary's imports (11.5% in 1967), well over half of which are supplied by non-Communist countries.

Re-organisation of Foreign Trade

55. Given Hungary's heavy dependence on foreign trade as a vital factor in the growth of her economy, and the poor performance of Hungarian exports in the sixties, it was to be expected that Hungarian economists, in planning their reforms, should give special attention to the problems of foreign trade. Specific proposals for reorganisation of the existing foreign trade mechanism were contained in the Government resolution on "Reform of the Economic Mechanism", which came into effect on 1st January 1968. Briefly, the aim is to improve the general effectiveness of foreign trade, particularly exports, by removing detailed central control and allowing economic factors such as market forces, prices and credits to influence decisions affecting foreign trade operations. Under the new system obligatory export targets are replaced by various incentives such as multiple exchange rates, export subsidies and tax rebates, whilst a number of controls including quotas, tariffs and special deposits have been introduced to ensure a policy of careful import selection. Direct foreign trading rights have been granted to upward of 80 enterprises, amongst them the major engineering concerns with a good export potential.

56. Further details of the organisational changes in foreign trade are given in Annex I. The following paragraphs attempt to assess the effect so far of these changes on Hungary's foreign trade.

Effects of the Reforms on Foreign Trade

57. The new economic regulators have now been in force for 18 months. The full impact on foreign trade cannot yet be judged, but some tentative assessment is possible. Hungary's total trade balance in 1968 showed a considerable improvement over 1967, with the deficit reduced from $74 million to $13.4 million. However, this was due mainly to a sharp rise in exports to the other Communist countries, especially to the USSR, giving Hungary a favourable balance with this sector. At the same time, total imports were held back to just above the 1967 level, falling below the planned increase of 4 - 5 per cent. The biggest reduction was in the category of machinery and equipment, imports of which were cut by 14.0 per cent compared with the steep rise of nearly 31 per cent in 1967. Consumer goods imports were also held back, showing a reported rise of only 3 per cent, compared with the big increase in 1967 of almost 30 per cent (although, admittedly, the large purchases of industrial consumer goods in 1967 formed part of the government's policy of ensuring

that there would be adequate supplies for the home market during the introductory period of the new economic mechanism).

58. Imports from the bloc as a whole increased at a much slower rate than exports, although Soviet deliveries increased at a much higher rate. With the non-Communist trading partners imports fell by 4% (5% with the industrially developed countries), compared with a 7.8% rise in 1967. The drop in Western imports suggests that the new measures devised to control hard currency expenditure are operating effectively. Indeed, they may have been too stringently applied in some cases. Exports to the West fell by 5.4% (2.5% to the industrially developed countries). Whilst no commodity breakdown for 1968 is yet available, the shortfall in Hungarian deliveries is reported to have been largely in agricultural and food products, which form about 40% of total exports to the West. Engineering products exports were also down by 14%, although exports of machinery and equipment - for which the bloc is the main market - rose considerably (by 15%).

59. It seems that the economic regulators are not yet having the desired effect of stimulating the growth and influencing the pattern of exports to convertible currency areas, and further incentives to exporters were announced at the end of last year. These include tax rebates to enterprises which can guarantee a continuing export surplus, as well as the granting of favourable foreign currency loan facilities for investment leading to increased exports of modern, competitive goods. It will be some time before the full impact of these latest measures is felt. Nevertheless, the 1969 plan provides for a 5% increase in trade with non-Communist countries which, if fulfilled, would represent a considerable improvement over last year's performance, and preliminary figures for the first quarter of 1969 show a sharp rise in both imports from, and exports to, non-Communist countries, compared with the same period of 1968 (19.7% and 18.4% respectively). Trade with the Communist countries is expected to rise by about the same amount as last year (7.0%), with imports increasing faster than exports - a trend which should help to offset Hungary's current large surplus with these countries. Commenting on the progress of foreign trade in its first year of operation under the new system, Hungary's Finance Minister described as the most important achievement the linking up of the sales activities of home and foreign markets, thus making enterprises directly interested in selling abroad and increasing their profits. They were now said to be making more rational use of internal and external resources. The system of state subsidies to less competitive enterprises was also playing a part in helping these firms to re-arrange their export structure, so that they should eventually be able to dispense with such assistance.

60. A reduction in the export subsidy paid per foreign exchange unit earned is planned this year, but in view of the anticipated

rise in exports the actual amount paid out will, it is claimed, be about the same as for 1968. Whilst it is admitted that the economic regulators have failed so far to provide adequate incentives for enterprises to increase exports to the "capitalist" countries, the new forms of foreign trading are said to be operating successfully. About 35% of exports and 11% of imports in 1968 were reported to have been transacted on the basis of company contracts, i.e. direct transactions between producer and consumer. Transactions on a commission basis, that is negotiations through the agency of the foreign trade corporations, accounted for a further 39% of exports and nearly 70% of imports.

CO-OPERATION WITH BLOC COUNTRIES

61. Hungary's efforts to improve the operational efficiency of her foreign trade system have tended to focus attention on the East-West aspect of trade. Nevertheless, it is also the declared objective of the Hungarian reformers to improve the structure of trade with the Communist countries, since these still account for 70% of Hungary's total trade. Given the present dependence of Hungary on Soviet raw materials supplies, the fact that Hungarian goods are still largely uncompetitive in world markets and must, therefore, rely on the bloc markets for disposal, and the long-term planned character of intra-bloc trade (which is unlikely to be influenced overnight by the economic reform), it is likely that the present direction of Hungary's foreign trade will continue.

62. During the debates which preceded the 22nd CMEA Council session in Berlin, in January 1969, and the 23rd special session held in Moscow in April, Hungarian economists repeatedly put forward their views on, and proposals for, new forms of closer economic co-operation within CMEA. These go far beyond the present phase of co-ordination of bilateral trade plans, and include: proposals for long-term joint investment, particularly in raw materials and the processing industries; co-ordination of national production plans of CMEA member countries to cover a number of years ahead, with special attention to specialisation agreements on an international scale; material incentives for closer scientific and technical co-operation, and greater exchange of licences; and the introduction of more realistic prices, currency exchange rates, as well as some form of convertibility of intra-bloc payments which would help CMEA to get away from the restricting nature of the present bi-lateral trading system.

63. Some steps towards greater freedom of trade were taken by Hungary at the end of 1967 when she and Czechoslovakia agreed to allow some quota-free trade in certain small groups of commodities such as glassware, china and machine tools. Some direct trade in border areas is also being conducted with

Yugoslavia, and similar negotiations are reportedly under way with Rumania. A plea for free trade between CMEA countries in certain commodities was made by the Hungarian economist, Nyers, in a speech on the eve of the 22nd meeting of the Council of CMEA, when he called for a foreign trade system that would combine planning and flexibility, particularly with regard to prices.

64. On Hungarian initiative, a conference of ministers of internal trade of all CMEA member countries - the first of its kind - was held in February of this year. The aim was to discuss ways of improving the methods of domestic trading, and expanding the range and quality of goods exchanged, primarily in the field of consumer goods, outside the framework of balanced quotas. The meeting set up working parties to examine questions of retail prices, market research and organisation of labour. Concrete proposals for 1970 are to be considered at a further ministerial meeting at the end of 1969. It was also agreed that the present volume of consumer goods exchanges would be doubled within a few years, and that direct border trade should be expanded. Since Hungary imports a larger percentage of retail goods than the other CMEA countries (some 12% as against 7%-9%) the proposed expansion and improvement of intra-bloc domestic trade will no doubt work to her advantage.

65. The Hungarian view of economic integration, as expressed by Nyers, comes close to that held by Poland, both in its emphasis on co-ordinated development of certain production branches across national borders - without, however, accepting the idea of a supra-national planning authority - and in its recognition of the need for some form of currency convertibility within CMEA.

66. Hungary's existing forms of co-operation with the bloc (apart from her membership of CMEA's permanent agencies) cover a wide variety of agreements on joint production, investments and marketing. The main types, with some examples, are given in the following paragraphs:

(i) Joint Production. This type of agreement covers one or more bloc countries, and involves supply of components for items manufactured by another country. Hungary has a number of such agreements, one of the most important being a 1968 agreement with the Soviet Union for co-operation in the car industry. Five major Hungarian companies will supply, on the basis of Soviet technical documentation, certain components for the Soviet VAZ passenger car to be manufactured under licence from FIAT at Tolyattigrad. In return, Hungary will receive 12,000-14,000 cars a year (out of an estimated annual production of 650,000-700,000 cars). This agreement is to cover the period 1969-1975.

(ii) Joint Production with East and West. This is a similar form of co-operation to (i) above, but involving also a non-Communist country. A recent example is the agreement concluded between TECHNOIMPEX, Hungary, INVEST of Czechoslovakia and the German firm of SUCKER for the building of slashing machines for the modernisation of the Czech textile industry. 50% of the components will come from Germany, and 50% from Hungary (built according to Sucker's blue-prints), with final assembly in Czechoslovakia.

(iii) Joint Processing and Development. Under this type of agreement raw materials or semi-processed goods are exchanged and further processed. The outstanding example is the Hungarian-Soviet Aluminium agreement. (See paragraph 49). Another agreement, with Poland, concluded in February 1969 and covering 1971-75, provides for deliveries of Hungarian alum earth to Poland, to be processed and returned in the form of aluminium. The new agreement reflects the growing co-operation between the two countries in the aluminium industry which began in 1960. Another agreement, this time with Rumania, provides for Hungarian lead slag and agglomerates to be processed in Rumania, with payment in the form of lead blocks. Under a 1967 agreement Rumanian steel ingots are sent to the Diosgyor Steel Works in Hungary where they are milled into blocks and returned to Rumania as semi-manufactured goods.

(iv) Joint Investment. Under this form of co-operation funds are earmarked for specific projects, and the creditor country/countries repaid in the products of the plant concerned. This type of investment as distinct from government loans, repayable in cash, was first introduced into CMEA in 1957, when the Soviet Zone and Czechoslovakia undertook to invest in Polish coal-mining. Hungary has received investment credit, mainly from the Soviet Union, for projects including the construction of steel rolling units at Dunjavaros, a nitrogen fertilizer plant at the Tiszavidek Chemical Works, for development of the Szazhalombatta oil refinery and the Light Metal Works at Szekesfehervar and for the building of a nuclear power station. Under a long term agreement with Poland the latter will supply Hungary with equipment for a sulphuric acid factory, as well as raw sulphur for processing, over a period of 15 years (1971-1985). Hungarian investment has been made in the Bulgarian and Rumanian chemical industries, and Hungary has joined with other East European countries in the exploitation of a Soviet phosphate mine at Kingisepp. Hungary is also reported to have extended a large credit to Yugoslavia for the supply of Hungarian power plant equipment and the construction of power plants in Yugoslavia, repayable by long-term deliveries of electricity.

(v) Joint Enterprises. This represents another form of joint investment, but differs from the latter in that ownership of the company concerned is shared as well as the profits. The first instance of such co-operation was the setting-up in 1959 of the Hungarian-Polish HALDEK Corporation, registered as a joint-stock company in Poland, to process Polish coal slack into briquettes. This was followed in 1964 by two further joint enterprises, this time with Bulgaria. AGROMASH, with its head office in Budapest and a branch office in Sofia, coordinates the development and manufacture in both countries of equipment for market gardening, vine and fruit growing. (Soviet participation in Agromash has been confirmed during 1969 by an agreement signed in Moscow). It is also concerned with joint sales of such equipment to third countries. INTRANSMASH coordinates design and research work relating to mechanical handling equipment for use in factories. Since its inception, INTRANSMASH has prepared more than 800 designs for transport equipment; and more than 20 projects have been implemented in enterprises in both countries. As a result of its work, it is claimed that handling costs and time-scales in certain factories have been considerably reduced, whilst other CMEA countries are also benefiting from the specialist knowledge of the company.

(vi) Production Specialisation. Although production specialisation on a CMEA-wide basis has so far failed, inter-product specialisation between pairs of countries has been developed successfully in some fields. Thus, Hungary and Czechoslovakia have agreed on a division of labour in the production of certain medical instruments, to avoid duplication of output. Two firms in the Soviet Zone are expected to participate in this specialisation agreement. The Hungarian Optical Works MOM and Carl Zeiss, Jena, carry out joint research and specialisation in the manufacture of medical instruments, particularly photo x-ray cameras. Zeiss components are used in certain hospital equipment exported by Hungary to third countries. Other agreements provide for Hungary to take over from the Soviet Zone the production of certain agricultural machinery and calculating equipment. Specialisation between two motor vehicles works provides for the East German firm to specialise in the production of lorries up to 10 tons, and over 10 tons for the Hungarian works.

(vii) Financial co-operation. This is a very recent form of co-operation for Hungary, and indeed for CMEA. It involves the setting up of banking consortia to promote financing of joint projects and long-term economic and business co-operation, including deals in third markets. So far, Yugoslavia has been the prime mover in this form of co-operation, and has set up banking consortia with Hungary and Czechoslovakia, whilst negotiations for a similar link with Poland have been started. Five Yugoslav Banks and two Hungarian banks - the Foreign Trade Bank and the Investment Bank - are involved in the Yugoslav-Hungarian Consortium. So far, the Consortium has been asked to undertake financing of one major deal (totalling some $7 millions), under which GANZ-MAVAG of Budapest and the Yugoslav firm of DJURO DJAKOVIC have agreed to produce jointly 65 diesel electric locomotives for Yugoslav railways. Whilst this form of co-operation is new for Hungary, it obviously has possibilities, both for further development of economic links with Yugoslavia in the first instance, and with other countries.

CO-OPERATION WITH THE INDUSTRIAL WEST

67. Hungary has realised that in order to raise living standards and to improve the quality of her industrial exports at all rapidly she must import advanced technology from the West. Since 1960 she has for instance purchased nearly 20 chemical plants, mostly for the production of fertilisers and plastics, and these have been financed by long-term credits. However she has in many cases avoided having to buy on straight long-term credit by making technical and industrial co-operation agreements with firms in the major Western industrialised nations.

68. As long ago as 1965 the Ministry of Metallurgy and Engineering and the Ministry of Foreign Trade jointly set up a Foreign Trade Office for Technical Co-operation with the aim of starting production co-operation between Hungarian factories - above all metallurgical and engineering factories - and Western firms. In 1968 Hungary signed 28 co-operation contracts with Western countries, almost doubling the number signed in the preceding 4 years. It is likely that all forms of industrial and technical co-operation will be further expanded in the immediate future. The Hungarians are known to be eager to do so with the UK; particularly mentioned have been the agricultural and food processing industries, and such technical branches as computers and data processing, instrumentation, motor vehicle manufacture, aluminium processing, centrifugal castings, semi-conductors, development of printed circuits, colour television, high voltage cables, electrical insulators for overhead cables and transformer bushes, railway signalling and lighting.

69. Industrial co-operation agreements, of which Hungary has signed more than any other Bloc country, are primarily a means of avoiding building up large hard currency debts, but at the same time they act as a stimulant to raising both labour productivity and industrial standards. Indeed the Hungarians are particularly interested in making agreements which involve processing Western raw materials, or the manufacture of parts and their assembly. These agreements were initially made possible by the relatively high precision and

quality of Hungarian engineering products based on long traditions of skilled workmanship, particularly in the precision and electrical engineering industries. Some years ago it was realised that the main deficiency was in design and development resources for the introduction of new advanced designs. Accordingly it was decided not to continue with ambitious attempts to develop a range of precision machine tools but to rely on the use of Western design and licences. A similar decision was reached for the development of electrical machinery, especially larger turbines and generators.

70. Hungary more than any other Bloc country had the prequisites for this type of industrial co-operation, together with the willingness on the part of the Hungarian Communist Party to be flexible in its approach to economic relations with capitalist countries. She has now concluded a large number of important industrial co-operation agreements. (Information on these has been taken, for the most part, from newspaper and magazine articles). Details vary from contract to contract, but several main types are discernible, and a brief mention of these is given below. Further examples are given in Annex II.

(i) Division of Labour. This type of co-operation is well illustrated by the agreement with Mecman of Sweden for pneumatic and hydraulic control elements to be manufactured and assembled by the Precision Fittings factory at Eger from technical documentation and know-how supplied by Mecman, so that there will be complete uniformity of specifications. There will be a substantial reciprocal flow of components between the two firms, and Mecman will stop producing one type of cylinder which will be made entirely in Hungary and supplied to Mecman in repayment.

(ii) Assembly in Hungary. In this type of agreement, products are assembled in Hungary from components partly or wholly supplied from abroad. For example, Dobson Hardwicke of the UK have an agreement by which the assembly of hydraulic self-propelling roof support for mines takes place in Hungary, with the UK firm supplying 60% of the parts.

(iii) Components incorporated in Western Equipment. An example of this type of co-operation is the agreement whereby The Ludwig Engel engineering company incorporates Hungarian driving gears and components into their own finished products.

(iv) Processing. Under various agreements, Hungary imports basic substances from Western countries, and processes and finishes them in her own factories. Szabadegyhaza Scotch Whisky will be put on the Hungarian market this year. It will be blended according to a Scottish formula, and the basic essence will be imported, as will the equipment, from Scotland.

(v) Joint delivery of complete plant to third countries. There has been close co-operation between the Simmering-Graz-Pauker enterprise of Austria and Lang and Ganz in Hungary since 1958. Together they have built power stations in the Lebanon and extended two in India (at Delhi and Faridabad). Hungary supplied the turbines and generators and auxiliary equipment, and Austria the boilers and other equipment.

(vi) Repayment in goods. This is a type of barter agreement whereby Hungary pays for Western equipment wholly or partly in goods rather than in convertible currency. For example, Spillingwerke of West Germany and Ganz of Hungary co-operate in producing electric power plants for factories, while Ganz will pay for the Austrian made steam engines with generators.

(vii) Repayment by products of equipment. There are numerous examples of this type of agreements which enables Hungary to install Western equipment in her factories, and repay later with the products of that equipment. One of several agreements with West German firms is that between Krupps and the Hungarian Csepel enterprise for the development and joint production of a lathe with electronic control, part of the output of the Hungarian factory to be supplied to Krupps.

(viii) Technical Agreements and exchanges. A number of agreements have been signed both at Government level and between firms covering the exchange of technical information. For example, at the end of 1967 English Electric signed a 10 year agreement with Ganz under which they will exchange technical information, particularly that concerned with large-scale transformers and high voltage switchgear. Ganz will be enabled to build giant transformers up to 400 kv with outputs of 200 MVA and over, for use in the power stations under constructions on the Danube.

(ix) Joint Companies. These exist to promote the marketing of Hungarian goods in western countries and vice versa. Technotrans is a company with 60% of the capital put up by the French and 40% by the Hungarians, which was set up earlier this year, between the Companie Francaise des Ferrailles and Technoimpex. The main purpose is to promote the sale of Hungarian machine tools, electric motors and electric appliances in France and to export French products to Hungary. A second company, Dutra Robust, has been established to market and service Hungarian tractors in France.

(x) Licences. The majority of the agreements already mentioned involved the purchase of a licence to manufacture the product. The Hungarian metallurgical and engineering enterprises are said to have bought the right to use some 60 patents or have acquired technical know-how from Western countries in the period 1950-1967, half of them since 1962 while in the first six months of 1968 they concluded agreements for twelve more. Purchases are reported to be valued at over 660 m forints ($56m) and compares with sales valued at $3m. It is a rapidly growing business which the Hungarians are most anxious to develop. Prospects for this exist under the new economic mechanism giving the enterprises more freedom of decision. A foreign licence often costs the Hungarian less than relying on their own research and development even if it needs to be adapted to local standards and conditions. To encourage the acquisition of foreign licences and technological documentation, exemption from import deposits on the accompanying machinery will, under certain circumstances, be granted.

Hungary has been able to sell several licences to Western firms and she hopes to be able to increase her earnings from such sales but so far sales amount to a tiny fraction of purchases. Those already sold include the rights to manufacture the Heller-Fargo air cooled condensation system for power stations to West Germany, France and the UK; a method for expanding perlite to West Germany and Switzerland; while Kilmarnock in Scotland is using a Hungarian process in its waterworks.

Although Hungary has made many types of co-operation agreements with Western countries she has not permitted any form of direct investment in Hungarian industry with the sole exception of the Hilton and Inter-Continental hotels. In return for finance for their construction and the provision of expertise they will receive a fixed percentage based on the turnover (not profits) from guests from hard currency countries. The Hungarians, unlike the Yugoslavs, are totally opposed to sharing control with any capitalist country.

WESTERN CREDITS

71. Hungary, although she has entered into a large number of widely varying industrial and technical co-operation agreements with the West (enumerated above) has also had to have some recourse over the past decade to credits from Western countries to finance imports of capital equipment, mainly chemical plant. In the absence of information on drawings actually made on these credits it is only possible to give the size of the medium and long-term debt outstanding to NATO countries. At the end of 1968 this stood at $119.3m and was,

in fact, less than that owed by any other member of CMEA (except Mongolia). $50m or over 40% of this total was accounted for by credits granted for five years or longer, a smaller proportion than for Rumania, Poland or Czechoslovakia. These figures probably over state Hungary's indebtedness as some of these credits will not have been drawn upon, even though it excludes credit given by non-NATO countries such as Austria, Sweden, Switzerland and Japan.

72. In the last few years Hungary has been granted $161.6m in new credit from NATO countries and in the same period paid out $126.7m in reimbursements.

$m

	1965	1966	1967	1968
New credits	40.3	21.6	54.4	45.3
Reimbursements	26.0	28.4	29.3	43.0

73. Hungary was the first East European country to negotiate Euro-dollar loans in the West. In 1968 she obtained 3-4 year Euro-dollar facilities for $10m and then for $15m from banking consortia headed by Lazards and Rothschilds respectively. The Hungarians regarded this type of loan for overcoming their shortage of hard currency as better suited to promoting their economic interests, being more flexible than credits linked to the purchase of specific capital goods. More recently they have tried a new approach and have raised $15m on the London market from a consortia of banks headed by BOLSA, this being the first Western loan to any East European country for industrial development but tied to use by a specific industry. The Hungarian Aluminium Corporation require the money to help finance expansion, more particularly of their capacity for the fabrication into finished products of the aluminium produced in the Soviet Union from Hungarian alumina. Exports of the aluminium industry already run at some $15m annually and as exports of semi-finished and finished products expand still further it is felt that these will enable the industry to pay off credits received from both the Soviet Union and the West. These plans form part of the general move towards concentration on capital - intensive finished goods for export through which Hungary hopes to increase her sales, more especially to Western Europe.

THE OUTLOOK

74. It is still too soon to judge whether the reforms will be successful. That the objectives of the third five year plan will generally be overfulfilled will be cited as an achievement, but the success of the reforms depends on more than growth. The uncompetitiveness of industry which resulted from central planning can only be eradicated as the

technical level of production and labour efficiency improve. The Hungarians themselves do not expect any radical improvements in the immediate future, because they have only provided a framework for a more competitive economy so far. Some modifications have been made in the regulators and the number of enterprises exempted from certain provisions reduced, but no fundamental changes are planned to be undertaken in the first three years. The reforms challenge previously accepted concepts, and pose difficult choices between what is needed economically and what is acceptable socially and politically. The high subsidies and the existing price structure can only be changed slowly if economic stability is to be maintained, but will continue to constrain competition and improvements in industrial efficiency and labour productivity. An increase in productivity will also necessitate a reduction in under-employment, and cautious action is likely to avoid widespread unemployment. The growth of wage differentials may pose problems. The NEM assumes an improvement in material incentive, but criticisms have already been voiced by workers on the division of profit-sharing funds.

75. These are economic-social problems, however, common in some form to most industrialised, developing countries. In Hungary, they must be subordinate to the political necessity of retaining party control over the economy. The reforms have introduced a considerable decentralisation of management: old forms of organisation such as trusts are being questioned, and the formation of joint stock companies offers opportunities for product diversification previously unknown. The development of new forms of enterprise organisation may well be limited by the extent to which they challenge party control and allow certain pressure groups - for example bankers, the managerial class, trade unions - to assume undue influence. Given this limitation - and the tolerances are probably fairly broad in Hungary with its present pragmatic approach to its economic problems - the ultimate success of the reforms will be judged by the rate at which the standard of living develops and in particular by success in foreign trade, the vital factor in Hungary's economic growth.

76. The new economic regulators have now been in operation for a year-and-a-half. It will be some time yet before their full impact on foreign trade can be assessed but the intial results are promising. Hungary's trade balance last year showed a considerable improvement, whilst the drop in Western imports suggests that the new control measures are operating satisfactorily. Exports to the West fell below the 1967 level. One reason for this may well be the restriction placed by EEC on Hungarian agricultural deliveries. There was also reportedly a slackening off in the rate of industrial exports to the West, and it has been suggested that some exporters, unaccustomed to the new system of direct selling, had priced themselves out of some foreign markets. Nevertheless, the

first quarter of this year has shown a marked improvement ~~in~~ Hungary's export performance, and it would seem that the various incentives are beginning to have their effect.

77. Unlike the Czechoslovaks, the Hungarians have been able to introduce their economic reforms within the framework of a politically stable regime. Their foreign trade policy has been thought out carefully, and the new methods of foreign trade activity are being cautiously applied. The Hungarians also have the advantage of having well qualified men at the top management levels, with a pragmatic approach to the new economic policies they have to carry out. A good example is the willingness to negotiate new forms of credit from the West such as Eurodollar loans and the loan for the aluminium industry. Another is the decision to set up an Institute for training in western technique of management and marketing. That the reforms appear to enjoy the support of the bankers is another reason for supposing that in the field of foreign trade at least, they stand a very good chance of success.

78. The long-term effects on foreign trade are obviously open to debate. The immediate cause for concern which prompted the Hungarians to act in the field of foreign trade was clearly their continuing balance of payments difficulties, and their inability to improve the position through an expansion of hard currency exports. Thus, attention has tended to be focused on the development of trade and economic relations with the West. But the bulk of the country's foreign trade (70%) is still conducted with the communist countries and there is no evidence to suggest that there is any intention to introduce basic changes in the present structure or direction, at least in the short term. What the Hungarians are aiming at is a change in the composition of trade by reducing the proportion of agricultural goods, and increasing the share of high value goods such as precision engineering products. Many of Hungary's export-orientated industries are still small, however, and in the chemical industry to take one example, capacities built since 1961 are inadequate to meet home demand and at the same time permit an increase in certain export lines and a reduction in imports. This situation is likely to continue well into the 1970s.

79. The Soviet Union will remain Hungary's main supplier of raw materials and, with the other countries of the bloc, will continue to provide a guaranteed and almost limitless market for Hungarian goods which are as yet largely uncompetitive in the west. Hungary is closely linked with the Soviet Union also through long-term co-operation agreement such as the Aluminium Agreement, the FIAT agreement, and through numerous other joint co-operation and investment projects with the Soviet Union and the other countries of CMEA. These will all have their effect in promoting closer economic links between Hungary and the bloc. At the same time, the increased contacts with the west which have been developing fairly rapidly as a result of the various

co-operation agreements concluded over the last five years, will undoubtedly continue and will enable Hungary to import the vital capital goods needed to bring Hungarian goods in their turn, up to the level where they could be competitive on world markets.

THE ECONOMIC REFORMS

The guidelines of the ~~New Economic Mechanism~~ (N.E.M.) were published in May 1966, followed by decrees for their implementation, which began in January 1968. This Annex examines the main aspects of the NEM, including the foreign trade sector. The reforms in general aim to create a more competitive economy and a more effective state planning system, by introducing a greater element of "self-regulation", i.e. by relying more on market forces and monetary incentive, and by delegating ordinary operational management decisions. This at least is the theory, but certainly in the early stages of implementation, the state retains very considerable powers.

Planning

2. The principle that decisions should be made at the most appropriate level has freed central planners from the need to plan all aspects of enterprise activity, while leaving with them the central economic plans as the main device for the execution of economic policy. The content of plans now depends on their function. Long term plans (10-15 years) outline basic objectives of policy relating to international relations, living conditions, and economic development; the medium term plans (5 years) contain guidelines for growth and indicate mandatory tasks (e.g. in investment) for the five year period, while the short term plan (one year) has a more flexible nature. Apart from defining obligatory developments for its particular year of the Five Year Plan, it provides opportunities for modifying elements of the longer plans and initiating economic policy changes. Enterprises now make their own plans independently, and it is a function of the respective Ministry to ensure that the plans of enterprises within its jurisdiction are within the framework of state economic policy.

Enterprises

3. Much more responsibility now rests with the enterprise director although the Ministry or other founding body retains the power to intervene if necessary. With the abolition of central allocations for most materials and products and much greater freedom in wages, investment and production policy, the enterprise director is now free to use the assets of the enterprise as he thinks best - long-run profit has now become the main success indicator. Workers' councils have no place in the Hungarian reform programme, mainly because it is felt that these would restrict the enterprise director's authority, though trade unions do have rights regarding working conditions, and the management is obliged to make a legally binding contract with its employees. Through its taxation policy, the state tries to ensure that the enterprise operates efficiently: particularly important has

been the extension to all enterprises of the 5 per cent tax on fixed and working capital used for productive purposes. This is a tax paid out of profits intended to encourage the economical use of labour and capital, and to discourage the production of unsaleable goods. Of the remaining profit an average of 60 per cent is paid to the state at present in the form of a progressive profit tax, and the remainder used by the enterprise to establish profit sharing, development, and reserve funds. The profit sharing fund is used to supplement personal incomes; although the state determines basic wages the enterprise can use the profit sharing fund either to increase wages during the year or else to provide differential share-outs at the end of the year. The shares paid can be up to 80 per cent of annual salary for top management, 50 per cent for technical and administrative personnel, and 15 per cent for workers. In addition premiums may be paid to top managers which may reach 30 per cent of their basic wage, but though this group stands to gain much more from profit sharing, it also stands to lose much more. If the future performance of the enterprise is in doubt, 25 per cent of the managers share can be withheld and distributed in the other two categories or kept as a reserve. Furthermore, in the event of an enterprise deficit not recoverable from reserves, only 75 per cent of a top manager's salary is guaranteed and 85 per cent of that of administrators and technicians, whereas workers wages are guaranteed to the full. The profit sharing fund is taxed progressively at rates from 2-70 per cent to prevent too wide differentiation between enterprises. The development fund (which also includes a percentage of amortization) is used primarily to finance an enterprise's own investment, to provide circulating capital, finance improvements in labour conditions, pay communal taxes to Councils, and repay bank and state loans.

4. The division of retained profits between development and profit-sharing funds depends on the ratio of wages to fixed assets, and in 1968 wages were multiplied by a wage factor of 2 to 7 (2 for trade enterprises, 7 for state farms) to further even out differences between enterprises. A reserve fund must be formed, in order to cover unforeseen risks, by deducting 10 per cent of the profit sharing and development funds. In 1968 60 per cent of the enterprise development fund formed from investment grants to the enterprises in 1967 was to be used to establish the basis of this reserve fund. Turnover taxes are maintained to manipulate prices, but their importance will decrease as prices reflect costs more accurately. Finally, by means of production taxes the state can tax away profits considered to have been made by monopolistic practices.

Investment and Credit

5. With the government's dependence on economic measures to regulate the economy, investment and credit policies assume more important roles in the NEM. Though provision is made for

the extension of enterprise financing of investments and increased use of bank credit, the government still determines the aggregate volume of investment, and its distribution among the various sectors of the economy. Central plans no longer contain any plan indices or limits for enterprise investment, but through control of amortization funds, profits and credit policy, the state ensures that central objectives are observed by enterprises. In addition certain categories of investment can be initiated only by the state, the most important of which are:

a. Individual large scale investments which include

(i) expansion of an enterprise which results in a 25 to 30 per cent increase in the output of the branch or product group concerned;

(ii) any investment dependent mainly on imports;

(iii) any investment which the government cares to classify as large scale.

b. Non-productive investments in the power and transport industries etc.

c. Non-productive investments of Councils and official Bodies.

Investments in category (a) are plan instructions and must be given priority over all other investments. Enterprises can initiate the replacement of obsolete fixed assets, modernisation programmes, expansion of production and non-productive welfare investments (and any investment which does not violate conditions i, ii and iii). An important change under the NEM is that state loans must be repaid (at least in part) by enterprises, and this ought to stimulate a more rational use of investment funds.

6. As well as defining the scope of enterprise investment, the state can further control investment through its credit policy. In general credits are granted according to the credit worthiness of enterprises. The basic interest rate on medium term (3-4 year) credits has been fixed at 8 per cent, while that on long term (6 year) credits is 5 per cent initially and 7 per cent when the project becomes productive. Several exceptions to these general rules are provided for; thus repayment periods of up to 8 years are permitted in the case of investments improving the 'regional distribution of industry' and of up to 10 years for foreign exchange earning investments. Long-term credits will not be granted in coal-mining, petroleum and natural gas production, electric and other public utilities. In agriculture the interest rate on medium term (4 year) credits is 6-8 per cent, and long term credit repayment periods can be as long as 20 years: no minimum rate of return has been stipulated. Short-term credits in general

are made on the basis of contracts or credit limits, and are granted mainly for improving the supply of goods to the market and for providing temporary circulating capital, the interest rate being fixed at 8 per cent. In general an enterprise's security for credits is its balance sheet, and this provides an extra check on the performance of enterprises, for if the bank is dissatisfied with an enterprise's performance it can withdraw credit facilities, keeping the founding body informed.

Prices

7. Four categories of prices have been established in the new system: officially fixed, maximum prices, prices allowed to fluctuate within limits set by the state, and free prices (non official). The first two categories include 70 per cent of domestic raw material and semifinished product prices; 60 per cent of agricultural prices, and 50 per cent of consumer goods prices. In certain instances modifications of non-official prices planned must be reported to the appropriate price authority in advance, and the National Material and Price Bureau may suspend price rises for three months. To restrict monopolistic pricing policies, agreements dividing markets have been made illegal and profiteering has been made a criminal offence. Costs of production, value judgements of the market and state preferences are taken into consideration when fixing prices, and it is claimed that state regulation of fixed prices will be flexible. In spite of the increased influence of market forces on prices subsidies are still widespread, and in addition 50 per cent of consumer goods have fixed or maximum prices in order to prevent any deterioration in the standard of living. Although 23 per cent of consumer goods have free prices, this is not greatly different from the position before the NEM. Another important aspect of the price reform is the raising of agricultural procurement prices to ensure the financial independence of co-operatives and to bring agricultural and industrial price levels more into line.

8. So long as the state retains such extensive control over relative prices, and social considerations play such an important role, progress towards a more rational system will be very slow, and the Hungarians themselves expect that it will take 10-15 years to evolve a pricing system which reflects supply and demand conditions adequately. This emphasises the long-term nature of the NEM, since the price reforms are crucial to its ultimate success.

Agriculture

9. The agricultural reforms, like those in industry, are based on the principles of increased self-management and financial independence, together with state control through

economic measures. The reforms began in the latter half of 1965, with a reduction in the number of obligatory requirements imposed on state farms and the substitution of a contract system for central directives in co-operative farming. The only compulsory target remaining is for the area sown with bread grains. In 1968 central control over sales was reduced, and co-operatives can now sell most products either direct to consumers (e.g. state enterprises, hospitals, restaurants) or on the market, as well as make contracts with state procurement bodies. In addition some co-operatives have been granted independent export rights.

10. In 1966 it was accepted that existing prices for agricultural products were too low, and as part of the general price reform aggregate prices were raised by 9 per cent in 1966 and by a further 8 per cent in January 1968, when tax concessions to help the weaker co-operatives were also introduced. In January 1966 state farm assets were revalued and revised depreciation charges were introduced. In December there was a revaluation of co-operative farms assets, and a substantial part of their debts were cancelled; 60 per cent, on average and up to 85 per cent for weak co-operatives. Amortization funds and wage funds were established in 1966. This, together with the new development fund, should permit a greater volume of self-financed investment to take place. As of January 1st 1968 wages and amortization are calculated as costs, and together with the establishment of profit sharing funds this means that most co-operatives are now able to guarantee up to 80 per cent of the average monthly wage.

11. To encourage profitability and to help the employment situation a decree in 1967 extended the scope of co-operative farms' ancillary activities to include machine maintenance and repair, the production of building materials, packaging, and transport. Ancillary activities were previously limited to processing agricultural products, and were performed by about 30 per cent of co-operative farms only. To prevent too much decentralisation of decision taking, and to co-ordinate the activities of co-operatives, Regional Associations of Co-operatives have been set up, and it is expected that these associations will also improve agriculture's bargaining position vis-a-vis industry. As well as these purely economic reforms there have been since 1966 several social reforms to improve living conditions and to reduce the labour exodus. These have included improved pension conditions and family allowances.

12. In 1968 the state introduced a new co-operative law to regulate the rights and duties of co-operative members, and a new land law to rationalise the land ownership situation. The co-operative law is based on the principle that the member

is both an owner and an employee of the co-operative, and therefore has both rights and duties. Under the new law only full membership is possible and assistant members who did not participate in collective work had until March 1968 to decide whether or not they wished to become full members. The co-operative Assembly elected by the members manages the co-operative, and is obliged to provide adequate work opportunities. Membership and its associated benefits are dependent however, on a minimum amount of collective work being done (150 days for men and 100 days for women). An important change under the new law is that all members are entitled to a household plot whereas previously only one plot for each family was allocated. In addition the size of the household plot is now related to the amount of collective work done. The rights of the members are determined by the Assembly which also has the authority to expel members who do not fulfil the minimum collective obligations, and to accept or reject prospective members. It is hoped that these measures will encourage people to stay in agriculture and at the same time provide incentives to improve the quality of collective work.

13. Before the introduction of the new land law the land farmed by the co-operatives was owned either by the members (58 per cent), the state (22 per cent), or by non-agricultural workers or institutions (20 per cent). As a result of persons outside of agriculture inheriting members' land, about 70,000 hectares a year is thought to have passed into non-agricultural ownership. The right of the co-operative to use these lands remained, but the payment of rent to outside owners was a financial burden. The land law is an attempt to rationalise this situation by bringing land into collective ownership. State lands are to become the property of the co-operative in return for a nominal amount of compensation. Non-agricultural owners had up to January 1st 1969 to decide whether or not they wish to become members. If they did not or if they were rejected by the co-operative assembly, they are entitled to retain 0.57 hectares of land, but any amount in excess of this becomes the property of the co-operative in return for compensation. Land belonging to members remains theirs unless they voluntarily decide to sell it to the co-operative. To prevent land passing out of the co-operative a member leaving it can only retain 0.57 hectares, and outsiders inheriting land may keep it only if they are accepted as members within three months of the date of inheritance. It has been stressed that co-operatives will have to pay compensation from their own funds for any land acquired, and this ought to moderate attempts to obtain ownership of members' lands.

Re-organisation of Foreign Trade under NEM

14. The declared aim of the organisational changes is to promote the general effectiveness of foreign trade operations, with special emphasis on exports, basically by removing detailed central control from the Ministry and allowing economic

criteria such as market forces, prices and credits to play a part in decisions affecting foreign trade activity. In the past, the functions of manufacturing and selling had been kept quite separate, with the foreign trade corporations - acting as the buying and selling agents of the Foreign Trade Ministry - divorced from the technical problems of production and costs whilst the producers themselves were out of touch with the requirements of the market.

15. Under the new system, quantitative targets are abolished and a system of incentives replaces the detailed and obligatory export targets previously laid down for each enterprise. The choice of market is now left to the producer, who can sell either at home or abroad, according to whichever market is the most "profitable", without reference to the foreign trade corporations. Managements are thus free to decide where they want to concentrate their export effort. This should have the effect of making the producers responsible for the financial success or otherwise of their exporting activity. Government subsidies will continue to be paid for a short period (subject to a certain export level being achieved), in order to assist some of the less competitive enterprises to adjust to the new conditions, but this is regarded as a purely temporary expedient in the transitional period. Some protection to domestic industry is also provided by a three-tier customs tariff, with a preferential rate for developing countries, an MFN rate to cover the bloc and most Western countries, and a full rate for Portugal, South Africa and the United States.

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16. The right of independent export (i.e. without the intermediary of the foreign trade corporations) was granted initially to a number of large producer enterprises enjoying a monopoly of their particular product, and already exporting directly a fair portion of their output. One of the industries most concerned is engineering and among the major enterprises invested with the right of direct export are: GANZ MAVAG Locomotive and Railway Carriage Manufacturers, CSEPEL Iron and Steel Works and the Hungarian Optical Works (MOM). Some commercial enterprises, notably those handling sales of capital equipment, may also be allowed to deal directly with firms abroad. To date, some 80 or more manufacturing and commercial enterprises are involved, although the central authorities retain the right to withdraw any concessions on direct foreign trading rights if necessary. The majority of enterprises, however, will continue to use the State foreign trade corporations as buying and selling agents, either on a commission basis or with both sides sharing profits and risks. It is hoped in this way to provide the trading associations with an incentive to maximise export profits and thus boost trade generally.

17. Another incentive to exporters is provided by a system of foreign exchange multipliers, applicable to Western currencies and the rouble respectively. These multiple exchange rates are well above the official exchange rate for the forint and are weighted in favour of the convertible currency area. Through the use of such multipliers (devised to make enterprises feel the full impact of their foreign trade operations) it is hoped to encourage exporters to maximise their returns. Conversely, the application of the new differential rates to imports will make these dearer and should cause importers to be highly selective in placing orders with foreign firms. Just as producer enterprises are free to select outlets for their products, so user enterprises are able to diversify their sources of supply by buying on the domestic market or importing. If the latter, then the enterprise itself has to finance the purchases, either from foreign exchange earnings or through bank loans. To control any excessive imports and forestall a rush on credit facilities (chiefly for machinery and equipment imports) in the initial period of reorganisation, import licensing is being used extensively. Four main types of licensing arrangements have been drawn up. They include a liberalised list of raw materials and semi-manufactured goods for which licences will be issued freely, and a global quota list, to include machinery and equipment. Import licences are issued by the Ministry of Foreign Trade or by the Foreign Trade Corporations, and enterprises earning hard currency almost certainly have little difficulty in obtaining such permits. According to Hungarian officials this partial system of quotas is meant to act as a guide in the formation of commercial policy, and not as a means of restricting the volume of trade.

18. After a year of operation, adjustments to the rates of levy for various goods were made, and modified customs tariffs introduced for 1969. Some rates are now higher and others lower, but it was stressed that the new rates would not lead to rises in the home market price of imported goods or of goods incorporating imported materials. A revised list of commodity groups which carry full or partial exemption from duty, has been drawn up, and only 150 commodity groups are now duty-free compared with 540 in 1968. These modifications in the customs tariffs are no doubt intended to re-inforce the policy of ensuring careful import selection on the part of enterprises. At the same time, since increased tariffs on imported materials must not be accompanied by price increases of the finished products (except possibly in the case of some luxury articles), this will have the effect of reducing the profit margins of the industrial enterprises and the foreign trade corporations.

19. Another economic lever designed to check excessive demand for Western machinery - necessary in view of Hungary's balance of payments difficulties - is the import-deposit scheme introduced last year, whereby a two-year deposit of 150 per cent of the value of the import was required prior to importing. The reduction of the deposit to 100 per cent earlier this year suggests that the scheme has been effective in controlling the rise in such imports from the West: but it could be interpreted as a concession to some importers who have reportedly been finding difficulty in raising funds to meet the deposit payments.

20. Foreign exchange will continue to be strictly controlled by the National Bank, and all foreign exchange earnings must be handed into the Bank, which then credits the enterprise with the requisite amount in forints. Allocation of foreign currency for imports is decided by the Foreign Trade and Investment Banks, and authorised through the National Bank, with preference given to imports of machinery and equipment, the investment cost of which can be recovered within a relatively short period (say 2-3 years).

CO-OPERATION AGREEMENTS BETWEEN HUNGARY AND THE WEST

Further examples are given here of the main types of co-operation agreement between Hungary and the West, as mentioned in the text above.

I. DIVISION OF LABOUR

Austria. (a) Agreement between Alpine Montangesellschaft and other Austrian firms and Metalimpex on the exchange of rolled steel products, the Austrian firms making reinforcing steels as required on a commission basis.

(b) Agreement between Steyr-Daimler-Puch and Hungarian enterprises for co-operation in the production of tractors, buses and trucks - with the Austrians making the engines and chassis and the Hungarians the super-structure.

(c) A 10 year agreement between the Osterreichische Stickstoffwerke and the Budapest chemical works to supply each other with products which the other is not producing.

Switzerland. The Zschokke firm gives the Diosyyor Machine Factory complete production drawings and technical information for the production of bending presses and on methods for the cold working of sheet metal. There is joint production of high-capacity bending presses, with the Hungarians manufacturing the machine frames while the Swiss concern supplies the hydraulic parts and the electrical controls.

France. As long ago as 1963 Alsthom and Neyrpic signed a ten year agreement with Ganz-Mavag on co-operation in the production of turbines and generators for shallow river hydro schemes. It was expected that a large proportion would be for exports to third countries. Blueprints and technical information will be made available, and though some of the equipment will continue to be made in France certain components such as rotary parts of generators or turbine blade sockets will be manufactured in Hungary. Another co-operation agreement provides for Ikarus-built bus bodies to be fitted with Berliet engines and chassis, the buses to be marketed jointly. The combination complements the existing Ikarus and Berliet ranges.

II. ASSEMBLY IN HUNGARY

West Germany. (a) In 1965 Rheinstahl and the Hungarian Deputy Minister for Foundries and Heavy Engineering signed an agreement on trade and technical co-operation in the production of mining and industrial equipment. Pit props, machine tools, boilers and other goods will be assembled from parts made in both West Germany and Hungary. An agreement between H. Schwarz (a Rheinstahl subsidiary) and Nikex provides for the former to supply documentation on production methods for semi-hydraulic pit props. Components supplied from West Germany will account for 25% of the cost of the final product to be assembled in Hungary.

(b) Siemens-Reiniger have an agreement with the Medicor works for the joint production of components for X-ray apparatus and for the Hungarian factory to assemble units for Siemens. A further agreement was made in January 1969 under which Siemens will triple its purchase of components for instruments this year and import double that amount in 1970. Siemens is reported to be satisfied with the standard of the Hungarian products and to be selling them under its own trademark.

(c) Demag have recently signed an agreement for building machinery to be partly assembled in Hungary. This is said to reflect a shortage of capacity in their West German works.

III. COMPONENTS INCORPORATED IN WESTERN EQUIPMENT

Austria. Simmering - Graz-Pauker have provided Hungarian machine tools for use in the repair workshops of a power station supplied to Iran.

IV. PROCESSING

Switzerland. Geigy will supply Chemolimpex with a basic substance which will be processed and finished in Hungarian factories into an agent for protecting plants from botis nubilalis.

Austria. (a) The Osterreichische Stickstoffwerke have recently signed a 5 year agreement with Chemolimpex under which the Linz factory will convert tetrachlorbenzene supplied by Hungary into 2, 4, 5-T acid which in turn will be further processed by the Budapest Chemical Works into weedkiller.

(b) Under another agreement the Osterreichische Stickstoffwerke will deliver acrylic type fibre base material for processing into finished man-made fibres by the Hungarian viscosa factory.

V. JOINT DELIVERY OF EQUIPMENT TO THIRD COUNTRIES see text above.

VI. REPAYMENT IN GOODS

West Germany. Under the general agreement of 1965 Rheinstahl takes raw materials, semi-finished steel, welding electrodes and ball bearings and helps Hungary to market timber, and tinned fruit and vegetables.

Italy, France, West Germany and UK. Agreements for payment for Fiat and Volkswagen motor cars to be made in spare parts and accessories were signed in 1966 and 1967. Payment for Ford Escort cars is to be in unspecified Hungarian industrial products which may include motor car components. There is also a similar agreement with Renault and Simca.

VII. REPAYMENT BY PRODUCTS OF THE EQUIPMENT

West Germany. (a) As part of the Renault - MAN - Ferrostahl agreement with the Gyor works under which the latter purchased complete plant and two licences to manufacture MAN diesel engines, 60% was to be repayed by supplying engine spare parts and only 40% in foreign currency.

(b) Rheinstahl built a radiator factory and agreed to buy part of the radiator production of the Hungarian works at world market prices for 5 years.

(c) Under a recent agreement the MBG enterprise supplies tools and plans for the production of electric, gas and coal-fired stoves and receives complete stoves in return.

(d) The cost of the licence to manufacture pipe straightening and drawing equipment will be repaid to the Kieselring company by spare parts and installation units.

UK. The technical and manufacturing agreement between Electronic Flo-meters and the Hungarian Central Measurement Research Laboratory in co-operation with the Mechanical Instruments factory will be paid for by precision cast components and assemblies.

France. Under a recent agreement Alsthom is supplying equipment to the Inota Aluminium Smelting Works and in return will receive steel-covered aluminium power transmission wire and heavy-current cables.

VIII. TECHNICAL AGREEMENTS AND EXCHANGES

A. Industrial

France. In 1965 Gaz de France signed a 5 year technical and scientific co-operation agreement with the Hungarian Gas and Oil Authority covering information on production, storage and transportation of gas. In 1968 a similar 5 year agreement was concluded by Electricité de France.

UK. Plant Protection Limited (a subsidiary of ICI) signed an agreement with the Office for Technical Development in conjunction with the Ministry of Agriculture for testing ICI's bipyridyl herbicides in field trials in Hungary. If these prove successful it is expected that sales of the herbicide will be boosted together with that of agricultural machinery.

Austria. A ten year agreement for the exchange of electric power was signed in 1965, and the link-up was inaugurated in May 1968. Austria will supply electricity in the daytime in summer while Hungary will do so at night and at weekends during the winter.

West Germany and UK. Agreements by Volkswagen and Shell to set up service stations in Hungary. The 1969 agreement with Shell to set up 10 more stations provides for forints as well as Western currencies to be accepted in payment. They will be supplied with petrol by the Hungarians processed to Shell specifications.

IX. JOINT COMPANIES

Finland. The first such company with a non-bloc partner was set up in 1964 to market the products of the electrical and electronics industries in Finland.

Sweden. It has been announced that a joint company formed by A.B. Bygging and Building Enterprise No. 31 is in the process of being established.

UK. The Richmond joint enterprise will market Hungarian shoes and other goods and aim to treble the value of sales. At a later stage it is envisaged that this may lead to co-operation in production.

USA. Although not strictly a joint company, arrangements have been made for the building of Hilton and Inter-Continental hotels in Budapest. Both hotels will be owned by the Hungarhotels chains with the Americans providing some of the initial finance, the technical know-how and seeing that service in the hotels is up to standard; in exchange they will receive a percentage of the turnover from guests from hard currency areas. The Inter-Continental is said to be investing $4m and the Hungarian government $2m in the project.

X. LICENSES

Sweden-France. In early 1968 Budavox made a series of agreements with Ericsson and SAT (The French telecommunications engineering firms) providing for the purchase of production licences and equipment valued at $10m. Ericsson will place at the disposal of Budavox the documentation, manufacturing and export rights of its modern crossbar telephone exchange system, which will be produced by the Beloyannis factory from 1971-2 onwards. Secondly Ericsson will provide similar facilities to allow them to start producing in 1970 their 300 and 960-channel transmission equipment. In a separate agreement with SAT Budavox have acquired the equipment and the right to produce special cables which can carry 300, 600 or 900 simultaneous telephone conversations.

Switzerland. Hungary has made licence agreements with Brown Boveri for large turbine and generator production above 100 MW capacity. Hungary has thus avoided dependence on the USSR for this type of equipment unlike the Soviet Zone and Poland.

STATISTICAL TABLES

TABLE 1 : Growth of National Income and the main sectors of the economy during the Third Five Year Plan (in per cent)

	1961-1965	1966-1970	1966	1967	1968		1969
		planned			actual	planned	planned
National Income	25	19-21	5	7	5	5-6	5-6
Gross Industrial Production	47	32-36	7	9	5	6-7	6
Construction	35	24-28	11	13	6	6-7	6-7
Gross Agricultural Production	10	13-15	9	1	1	3-4	2-3

TABLE 2 : Growth of the main branches of industry 1966-1970 (in per cent)

	1966-1970	1966	1967	1968		1969
	planned			actual	planned	planned
Mining	n.a.	n.a.	n.a.	3-4	1-2	n.a.
of which: coal	n.a.	n.a.	-8	0	n.a.	-
oil	n.a.	-5	-1	7	8	-5
natural gas	n.a.	40	32	31	10	15
Electric Power	n.a.		5	5	8	n.a.
Metallurgy	n.a.	7	6	6	4	6
Engineering	40-45	9	9	8	7-8	7
Building Materials	25-30	10	11	3	6-7	7.5
Chemicals	55-60	12	13	10	11-12	9
Light Industry	20-24	7	10	2	6-7	3
Food Industry	28-32	3	9	4	5-6	5.5

TABLE 3 : Investment in the Socialist Sector (at current prices, million forints) and its distribution between the major sectors (in per cent)

	1961-1965	1966-1970 planned	1966	1967	1968	1969 planned
Total	212,190	250-260,000	47,658	58,026	68-70,000	73,000
Manufacturing and Construction	43.7	46-50	44.9	46.4		
Agriculture	18.2	16-18	15.9	15.0		
Transport and Communications	13.9	14-16	14.3	14.0		
Domestic Trade	3.2	2-3	3.4	3.4		
Communal, non-productive	21.0	16-20	21.5	21.0		

TABLE 4 : Structure of Investments (in per cent)

		1961-1965 (average)	1965	1966	1967
Building		46.9	47.7	47.8	45.9
Machines		42.9	41.0	41.7	43.4
of which:	Domestic	24.0	22.7	21.8	21.5
	Imported	18.8	18.3	19.9	21.9

TABLE 5: Value of Uncompleted Investments (current prices, million forints)

	1961	1962	1963	1964	1965	1966	1967
TOTAL	25,753	28,487	31,046	32,441	31,935	36,407	42,325

TABLE 6: Breakdown of Industrial Investment (by percentage share and value, at current prices, million forints)

	1961-1965		1966		1967	
	value	per cent	value	per cent	value	per cent
Total	86,140	100	20,479	100	25,766	100
Mining	16,670	19.3	3,597	17.5	3,618	14.0
Electric Power	12,610	14.6	2,478	12.1	2,947	11.4
Metallurgy	8,770	10.1	2,146	10.4	3,114	12.0
Engineering	12,275	14.3	3,248	15.9	4,408	17.1
Building Materials	5,500	6.4	1,169	5.7	2,009	7.8
Chemicals	14,365	16.7	3,745	18.3	4,460	17.7
Light Industry	8,825	10.3	2,274	11.1	2,897	11.2
Food Processing	7,125	8.4	1,822	8.9	2,313	8.8

TABLE 7: Gross agricultural production, output of major crops and livestock products, and the livestock population

Gross agricultural production (average of 1961-1965 = 100)

1965	1966	1967	1968	1969
100	109	110	112(1)	115(1)

(1) Estimates

Physical output of major crops and livestock products (1,000 metric tons unless otherwise stated)

		1961-1965 (average)	1966	1967	1968(1)
Crops:	Wheat	1,965	2,192	2,718	2,829
	Rye	259	242	225	237
	Barley	966	916	934	971
	Oats	96	72	86	
	Maize	3,316	3,907	3,521	
	Sunflower Seeds	110	102	79	
	Sugar Beet	3,090	3,570	3,354	
	Potatoes	1,735	2,433	1,507	
	Green Maize / Silage Maize	4,041	4,762	3,884	
Fruit:	Fruit	396	397	675	
Livestock products:	Meat (live weight)		1,208	1,236	1,496
	Milk (million litres)	1,840	1,795	1,918	
	Eggs (millions)	1,996	2,436	2,750	
	Wool (tons)	9,800	9,936	10,050	

(1) 1968 figures provisional

Livestock population (1,000 head. March figures)

	1961-1965 (average)	1966	1967	1968	1969
Cattle	1,939	1,973	2,014	2,094	2,000
Cows	801	766	763	779	747
Horses	364	295	287		
Pigs	6,216	5,799	6,005	6,592	5,317
Sows				526	402
Sheep	3,048	3,270	3,274		

TABLE 8: Average yields of major crops (in quintals per hectare)

	1961-1965 (average)	1965	1966	1967	1968(1)
Wheat	18.6	21.7	21.6	25.8	25.2
Rye	10.8	11.7	11.6	11.0	12.5
Barley	18.7	20.2	18.7	20.9	
Maize	26.1	29.2	31.6	28.5	27.8
Sunflower Seed	9.6	7.9	10.8	9.6	
Sugar Beet	246.4	286.1	330.6	324.0	290-312
Potatoes	79.1	71.9	122.8	89.0	94.0

(1) All 1968 figures provisional

TABLE 9: Fertilizer Consumption and the Irrigated Area

Fertilizer Consumption	1960	1965	1966	1967	1968
1,000 tons of active substance	167.5	357	387	489	588
kilograms of active substance per hectare of arable land	31.5	70.3	76.3	96.6	115

Irrigated Area (in hectares)	1961-1965 (average)	1965	1966	1967	1968
	195,650	99,812	162,872	204,607	355,000

TABLE 10: Stock of major Agricultural Machines

	1960	1965	1966	1967	1968
Tractors	41,015	64,231	67,513	67,567	70,000(1)
Hectares of arable land per tractor	129	79	75	75	72(1)
Tractor Ploughs	36,549	55,183	51,429	49,352	
Sowing Machines	15,026	23,932	23,797	23,401	
Grain Combines	4,167	8,841	9,668	9,805	11,000(1)

(1) Provisional figures

TABLE 11: Socialization of Agriculture and Utilization of Land

Distribution of Arable land by type of farm

	State Farms	Co-operative Farms	Private Farms	Auxiliary Farms (1)
1950	5.2	4.4	89.0	1.4
1962	14.0	69.5	3.6	12.7
1967	14.0	68.0	3.0	15.0

(1) Including household plots of co-operative members

Utilization of land 1967

	Total	Arable	Orchards/ Vineyards	Meadows/ Pastures	Forests	Other
million hectares	9.31	5.07	0.56	1.29	1.45	0.94
per cent	100	54.5	6.0	13.8	15.6	10.1

Division of arable land by major crops (in per cent)

	Bread Grain	Fodder Grain	Maize
1956-1965 (Average)	24.3	11.9	24.8
1967	24.8	12.0	24.4

TABLE 12: Increase in incomes, employment and productivity (percentage increase over previous year)

	1966	1967	1968 actual	1968 planned	1969 planned
Employment	1	3	3.8	less than 3	2.5(1)
Industrial Productivity	5	6	1.1	4-5	3.5(1)
Populations Income	7	7	8	6	n.a.
Real Income (Workers and Employees)	5	5	5-5.5	3-4	4-5
Real Wages (Workers and Employees)	2	4	2-2.5	1.5-2	2
Real Income (in agriculture)	7	10	9	n.a.	n.a.
Retail Prices	2	1	0.5	1-2	1-2
Retail Trade	7	10	7	7	8.9

(1) Estimates

TABLE 13: Stock of durable consumer goods (per 1,000 inhabitants)

	1960	1966	1967	1968
Electric washing machines	45.2	130.4	142.8	n.a.
Refrigerators	3.8	35.9	47.8	n.a.
Cars	3.1	11.5	14.2	15.2
Wireless sets	222	244	243	n.a.
Televisions	10.4	97.7	114.4	137

TABLE 14: HUNGARIAN FOREIGN TRADE 1963-1968

Source: Hungarian Statistical Yearbooks

$ Millions

		1963	1964	1965	1966	1967	1968	% change 1968/ 1967
Total trade	Total	2,511.3	2,846.3	3,029.8	3,158.5	3,476.4	3,591.7	+ 3.3
	Exports	1,205.7	1,351.7	1,509.5	1,593.2	1,701.1	1,789.2	+ 5.2
	Imports	1,305.6	1,494.5	1,520.3	1,565.2	1,775.2	1,802.6	+ 1.5
	Balance	-99.9	-142.8	-10.8	+28.0	-74.1	-13.4	
Trade with Soviet Union	Total	860.2	987.5	1,078.7	1,044.1	1,205.3	1,331.2	+10.4
	Exports	427.8	490.2	525.4	526.8	613.4	683.1	+11.4
	Imports	432.3	497.4	553.3	517.3	591.9	648.1	+ 9.5
	Balance	-4.5	-7.2	-27.9	+9.5	+21.5	+45.0	
Trade with other Communist Countries	Total	889.0	971.0	997.3	1,060.4	1,144.5	1,189.1	+ 3.9
	Exports	421.2	436.4	532.4	562.0	553.3	602.4	+ 8.9
	Imports	467.9	498.5	464.9	498.0	591.1	586.7	- 0.7
	Balance	-46.7	-62.1	+67.5	+64.0	-37.8	+15.7	
Total trade with Communist Countries	Total	1,749.2	1,958.5	2,076.0	2,104.5	2,349.8	2,520.3	+ 7.2
	Exports	849.0	926.6	1,057.8	1,088.8	1,166.7	1,285.5	+10.1
	Imports	900.2	995.9	1,018.2	1,015.7	1,183.0	1,234.8	+ 4.4
	Balance	-51.2	-33.3	+39.6	+73.1	-16.3	+50.7	
Trade with developed countries (1)	Total	609.0	700.9	745.1	810.0	904.8	870.5	- 3.8
	Exports	283.2	304.5	345.2	405.9	422.0	412.0	- 2.4
	Imports	325.8	396.3	399.8	404.1	482.8	458.5	- 5.0
	Balance	-42.6	-91.8	-54.6	+1.8	-60.8	-46.5	
Trade with developing countries	Total	153.0	186.9	208.7	243.9	221.7	200.8	- 9.4
	Exports	73.5	84.7	106.5	98.6	112.3	91.5	-18.5
	Imports	79.5	102.3	102.3	145.4	109.4	109.3	
	Balance	-6.0	-17.6	+4.2	-46.8	+2.9	-17.8	
Total trade with non-Communist Countries	Total	762.0	887.8	953.8	1,053.9	1,126.5	1,071.3	- 4.9
	Exports	356.7	389.2	451.7	504.5	534.5	503.5	- 5.8
	Imports	405.3	498.6	502.1	549.5	592.2	567.8	- 4.1
	Balance	-48.6	-109.4	-50.4	-45.0	-57.9	-64.3	

(1) EEC, EFTA, Greece, Finland, Spain, Turkey, N. America, Japan, Australia, New Zealand.

TABLE 15: FOREIGN TRADE 1960 and 1963-1968

Source: Hungarian Statistics

Percentage Distribution

	1960	1963	1964	1965	1966	1967	1968
Trade with the Soviet Union	30.2	34.3	34.7	35.7	33.1	34.7	37.1
Trade with other Communist Countries	40.7	35.4	34.1	32.9	33.5	32.9	33.0
Trade with non-Communist Countries	29.1	30.3	31.2	31.5	33.4	32.4	29.9

TABLE 16: HUNGARY: TRADE WITH NATO PARTNERS

Source: Hungarian Statistics Yearbooks (see also Footnotes (1) and (2))

($ million)

		USA	Canada	Bel/Lux	Denmark	France	West Germany	Greece	Italy	Netherlands	Norway	Turkey	UK	Total NATO(1)	Iceland(2)	Portugal(2)
1963	Total	9.3	7.3	16.5	12.1	61.5	120.9	15.6	89.1	33.0	7.0	11.1	69.0	452.2	0.6	1.1
	Exports	2.8	0.6	5.8	5.0	16.2	57.5	8.7	58.2	12.6	3.2	7.5	30.3	208.4	0.3	0.2
	Imports	6.2	6.7	10.7	7.2	46.0	63.3	6.9	30.9	20.4	3.8	3.6	38.7	243.8	0.3	0.9
	Balance	-3.4	-6.1	-4.8	-2.2	-29.1	-5.8	+1.7	+27.3	-7.8	-0.6	+3.9	-8.4	-35.4	-	-0.7
1964	Total	41.4	2.5	9.5	11.7	42.7	148.1	16.3	85.9	40.0	10.1	10.5	79.5	516.3	0.6	0.9
	Exports	4.3	0.8	7.5	6.5	12.4	67.8	7.3	50.9	16.1	5.6	4.5	33.2	217.0	0.3	0.1
	Imports	37.2	1.7	20.1	5.3	30.3	80.3	8.9	34.9	23.8	4.5	5.9	46.3	299.3	0.3	0.8
	Balance	-32.9	-0.9	-12.6	+1.2	-17.8	-12.5	-1.7	+16.0	-7.7	+1.1	-1.4	-13.2	-83.3	-	-0.7
1965	Total	25.6	9.9	25.2	14.1	44.8	156.9	16.3	103.5	35.1	8.9	19.9	78.0	538.4	0.4	1.2
	Exports	4.5	2.4	8.1	6.8	17.8	79.6	9.5	54.1	16.8	2.7	9.6	28.5	240.4	0.3	0.3
	Imports	21.1	7.5	17.1	7.3	27.1	77.4	6.8	49.4	18.4	6.2	10.2	49.5	298.0	0.0	0.9
	Balance	-16.6	-5.5	-8.9	-0.4	-9.3	+2.2	+2.7	+4.7	-1.6	-3.5	-0.6	-21.0	-57.6	+0.3	-0.6
1966	Total	19.8	6.5	32.5	12.4	60.1	177.3	17.9	115.2	31.7	6.9	30.3	87.9	598.6	0.5	1.7
	Exports	4.5	4.2	8.9	7.2	27.2	85.3	9.7	67.6	17.6	3.6	14.6	32.0	282.4	0.2	0.8
	Imports	15.3	2.3	23.7	5.2	32.9	92.0	8.3	47.6	14.1	3.2	15.7	55.9	316.2	0.3	1.0
	Balance	-10.9	+1.8	-14.8	+2.0	-5.7	-6.7	+1.4	+20.0	+3.5	+0.4	-1.1	-23.9	-33.8	-0.1	-0.2
1967	Total	13.9	8.2	27.7	16.9	59.1	177.6	20.8	136.5	33.4	9.3	33.6	95.1	632.0	0.2	1.1
	Exports	5.7	6.6	11.0	7.5	24.2	73.9	8.3	82.4	18.6	5.0	18.4	38.3	299.9	0.2	0.5
	Imports	8.2	1.6	16.6	9.4	34.9	103.7	12.5	54.1	14.8	4.3	15.2	56.8	332.1	0.0	0.6
	Balance	-2.5	+5.0	-5.6	-1.9	-10.7	-29.8	-4.2	+28.3	+3.8	+0.7	+3.2	-18.5	-32.2	+0.2	-0.2
1968	Total	17.8	20.7	32.4	14.1	54.6	158.6	16.2	131.9	42.4	10.2	33.4	93.1	625.5	n.a.	n.a.
	Exports	6.6	8.7	16.9	6.8	20.1	78.5	8.7	61.8	23.2	5.6	18.6	41.6	297.1		
	Imports	11.2	12.0	15.6	7.3	34.5	80.1	7.5	70.1	19.2	4.6	14.8	51.5	328.4		
	Balance	-4.6	-3.3	+1.3	-0.6	-14.4	-1.6	+1.2	-8.3	+4.0	+1.0	+3.9	-9.9	-31.3		

Footnotes (1) Includes those NATO countries for which Hungarian statistics are available.
(2) Figures for Iceland and Portugal are from western partner statistics, and are not included in the NATO total.

TABLE 17: HUNGARY: FOREIGN TRADE WITH EAST EUROPEAN PARTNERS

Source: Hungarian Statistical Yearbooks and Hungarian Foreign Trade No. 3, 1969

($ millions)

		1963	1964	1965	1966	1967	1968
Albania	Total	4.9	3.9	4.0	7.2	7.8	7.4
	Exports	2.2	2.1	2.0	2.1	2.5	3.0
	Imports	2.7	1.8	2.0	5.1	5.3	4.4
	Balance	-0.5	+0.3	-	-3.0	-2.8	-1.4
Bulgaria	Total	31.7	40.5	42.4	57.8	71.0	57.7
	Exports	16.7	16.6	20.3	29.4	31.4	28.9
	Imports	15.0	23.9	22.1	28.4	39.6	28.8
	Balance	+1.7	-7.3	-1.8	+1.0	-8.2	+0.1
Czechoslovakia	Total	282.7	303.6	313.8	304.4	305.3	342.3
	Exports	132.7	149.0	179.3	171.4	153.2	181.8
	Imports	150.0	154.6	134.5	133.0	152.1	160.5
	Balance	-17.3	-5.6	+44.8	+38.4	+1.1	+21.3
Soviet Zone of Germany	Total	239.8	255.1	266.3	309.1	357.9	371.1
	Exports	106.9	121.9	135.1	157.5	163.9	174.7
	Imports	132.9	133.2	131.2	151.6	194.0	196.4
	Balance	-26.0	-11.3	+3.9	+5.9	-30.1	-21.7
Poland	Total	158.3	179.6	193.3	196.8	213.2	214.0
	Exports	78.5	84.4	105.0	105.1	101.6	101.3
	Imports	79.8	95.2	88.3	91.7	111.5	112.7
	Balance	-1.3	-10.8	+16.7	+13.4	-9.9	-11.4
Rumania	Total	69.9	83.6	67.5	63.1	76.6	71.5
	Exports	34.0	42.1	28.7	30.1	37.2	35.3
	Imports	35.9	41.5	38.8	33.0	39.4	36.2
	Balance	-1.9	+0.6	-10.1	-2.9	-2.2	-0.9
Yugoslavia	Total	37.5	60.2	56.5	61.7	62.6	63.9
	Exports	25.2	36.3	29.2	32.1	30.4	34.1
	Imports	12.3	23.9	27.3	29.6	32.2	29.8
	Balance	+12.9	+12.4	+1.9	+2.5		
Eastern Europe	Total	824.8	926.5	943.8	1,000.1	1,094.3	1,127.9
	Exports	396.2	452.4	499.6	527.7	520.2	559.1
	Imports	428.6	474.1	444.2	472.4	574.1	568.8
	Balance	-32.4	-21.7	+55.4	+55.3	-53.9	-9.7

TABLE 18: HUNGARY: MAIN TRADING PARTNERS 1967 and 1968

($ million)

	1968 Total Turnover	1968 % of total trade	1968 Exports	1968 Imports	1968 Balance		1967 Total Turnover	1967 % of total trade	1967 Exports	1967 Imports	1967 Balance
(1) USSR	1,331.2	37.1	683.1	648.1	+ 35.0	(1)	1,205.3	34.7	613.4	591.9	+ 21.5
(2) Soviet Zone of Germany	371.1	10.3	174.7	196.4	- 21.7	(2)	357.9	10.3	163.9	194.0	- 30.1
(3) Czechoslovakia	342.3	9.5	181.8	160.5	+ 21.3	(3)	305.3	8.8	153.2	152.1	+ 1.1
(4) Poland	214.0	6.0	101.3	112.7	- 11.4	(4)	213.2	6.1	101.6	111.5	- 9.9
(5) Federal Republic	158.6	4.4	78.5	80.1	- 1.6	(5)	177.6	5.1	73.9	103.7	- 29.8
(6) Italy	131.9	3.7	61.8	70.1	- 8.3	(6)	136.5	3.9	82.4	54.1	+ 28.3
(7) Austria	106.7	3.0	45.8	60.9	- 15.1	(7)	111.5	3.2	47.3	64.2	- 16.9
(8) UK	93.1	2.6	41.6	51.5	- 9.9	(8)	95.1	2.7	38.3	56.8	- 18.5
(9) Rumania	71.5	2.0	35.3	36.2	- 0.9	(10)	76.6	2.2	37.2	39.4	- 2.2
(10) Switzerland	68.3	1.9	39.6	28.6	+ 11.0	(9)	88.9	2.6	46.3	42.6	+ 3.7
(11) Yugoslavia	63.9	1.8	34.1	29.8	+ 4.3	(12)	62.6	1.8	30.4	32.2	- 1.8
(12) Bulgaria	57.7	1.6	28.9	28.8	+ 0.1	(11)	71.0	2.0	31.4	39.6	- 8.2
(13) France	54.6	1.5	20.1	34.5	- 14.4	(13)	59.1	1.7	24.2	34.9	- 10.7
(14) Netherlands	42.4	1.2	23.2	19.2	+ 4.0	(14)	33.4	1.0	18.6	14.8	- 3.8
Total	3,107.3	86.6	1,549.8	1,557.4	- 7.6		2,294.0	86.1	1,462.1	1,531.8	- 69.7

Source: Hungarian Statistical Yearbook for 1967, and Foreign Trade No. 3, 1969, for 1968.

TABLE 19: HUNGARY: COMMODITY COMPOSITION OF FOREIGN TRADE, 1967

EXPORTS	% of total trade		of which, to Communist Countries	to non-Communist Countries
1) Fuels, electric energy	1.2		28.6	71.4
2) Raw materials	7.7	28.2	61.3	38.7
3) Semi-finished goods and spare parts	19.3			
4) Machinery and equipment	25.1		93.6	6.4
5) Industrial consumer goods	23.6		72.2	27.8
6) Foodstuffs	23.1		48.5	51.5
IMPORTS	**% of total trade**		**of which, from Communist Countries**	**from non-Communist Countries**
1) Fuels, electric energy	7.4		98.5	1.5
2) Raw materials	23.6	57.4	60.6	39.4
3) Semi-finished goods and spare parts	26.4			
4) Machinery and equipment	23.6		76.8	23.2
5) Industrial consumer goods	7.5		80.3	19.7
6) Foodstuffs			42.7	57.3

Source: Hungarian Statistical Yearbook 1967

TABLE 20: HUNGARY: COMMODITY COMPOSITION OF FOREIGN TRADE 1960, 1966 and 1967

EXPORTS	1960	1966	1967
Fuels	1.5	1.3	1.2
Raw Materials	8.0	7.4	7.7
Semi-finished goods and spare parts	16.5	20.8	19.3
Machinery and equipment	33.6	25.0	25.1
Consumer goods	18.2	22.9	23.6
Foodstuffs	22.1	22.6	23.1
IMPORTS	**1960**	**1966**	**1967**
Fuels	8.5	9.2	7.4
Raw Materials	31.2	26.1	23.6
Semi-finished goods and spare parts	23.2	26.9	26.4
Machinery and equipment	21.7	20.4	23.6
Consumer goods	5.7	6.5	7.5
Foodstuffs	9.7	11.2	11.5

Source: Hungarian Statistical Yearbook 1967