Industrial policies in Hungary

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Reformed and orthodox state socialism
Pluses and minuses

Reformed socialism		Orthodox socialism	
SOE management automy – better management skills	SOE management automy – lack of owners' control	Cheap mass production	Lack of innovation
More flexible prices	Creeping inflation	Stable prices	Stable (unreal) prices
Imitation of market competition	Lack of real competition (paternalism)	Low transaction costs	Lack of choice, low consumer satisfaction
Access to foreign markets	Trade deficit, huge foreign debts	Protected domestic markets	Protected domestic markets

Hungary's legacies in 1990

- Open (rather than suppressed) inflation
- Import intensive economic structure
- Exposure to international finance (high international debts from capital markets, IMF, banks)
- Active fiscal state (subsidies, sur-taxes, „financial bridges” to mitigate the results of the limited competition among SOEs)

As a consequence: economic policy options reduced to **generate hard currency** via privatisation and opening to FDI

Possible privatization techniques and the privatization policy mix in CEE

(1) Sale to outside owners (2) MBO/ ESOP (3) Voucher
(4) Restitution (5) Other (6) Still in state hands

National differences in the mid-1990s

Czech Republic

*50 % **voucher -** 10 % other -- 40 % remaining in state hands*

Hungary

*40 % **market sale --** 18 % other --- 42 % remaining*

Poland

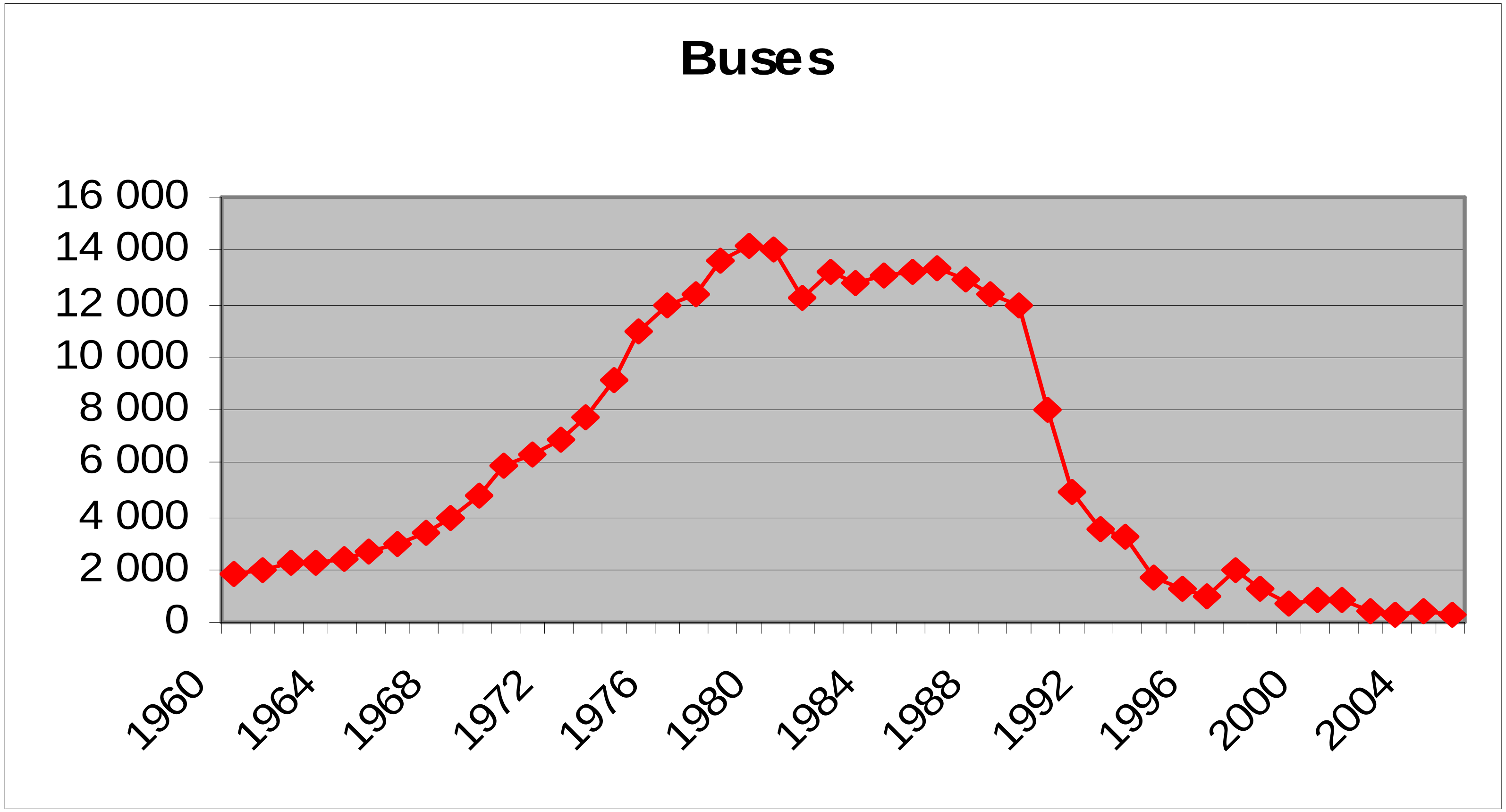
*14 % MBO --- 23 % **other--** 54 % remaining*

Industrial and economic policy at the outset

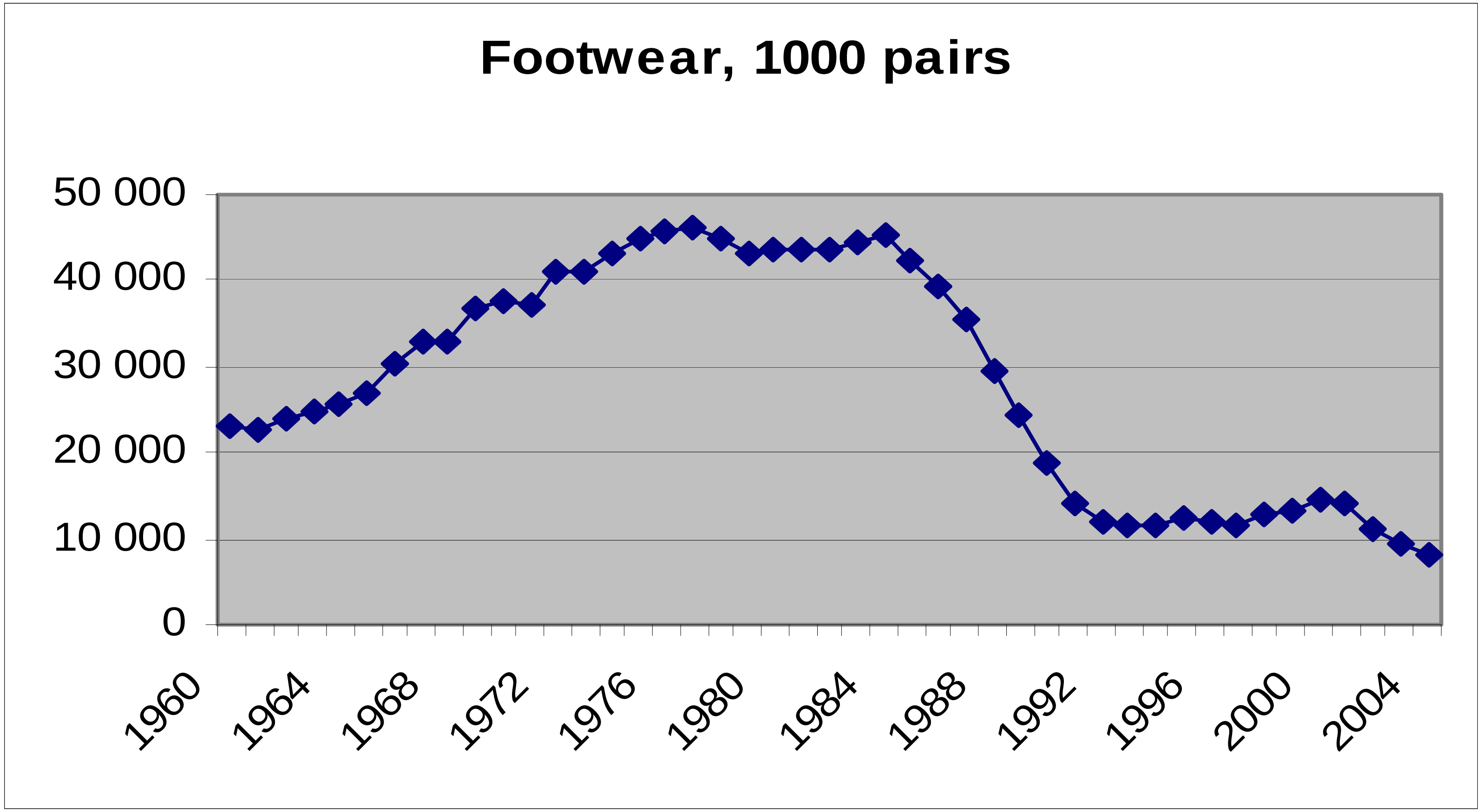
The **Antall** years

- cautious macroeconomic policies: gradual anti-inflationary stance; maintaining access to capital markets, invitation of FDI
- Radical reforms in micro-economy: banking law, subsidy reduction, increase of energy prices, law on bankruptcy, market-type privatization
- Support schemes (of limited effect) for start-ups and SME

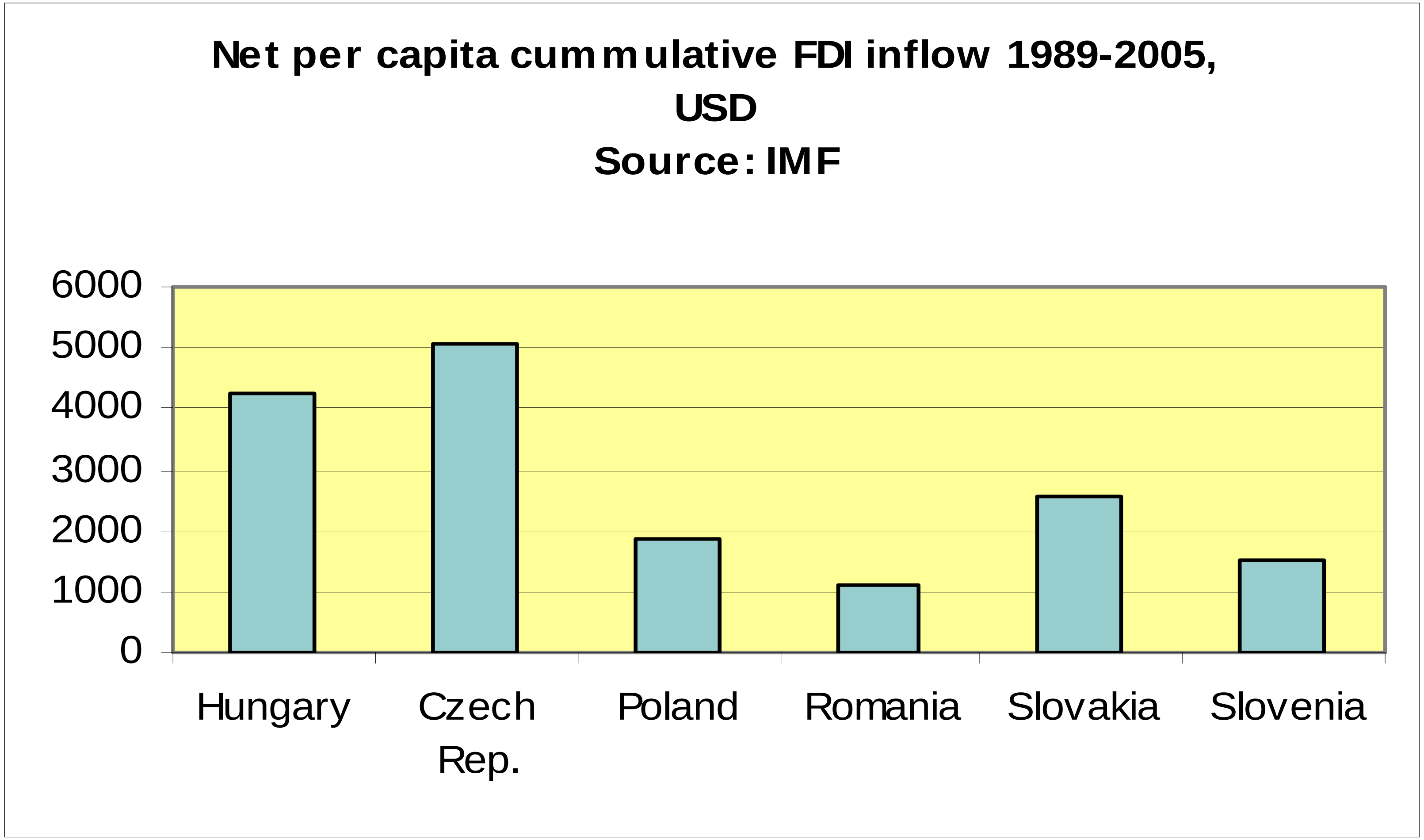
Whatever happened to a flag-ship industry



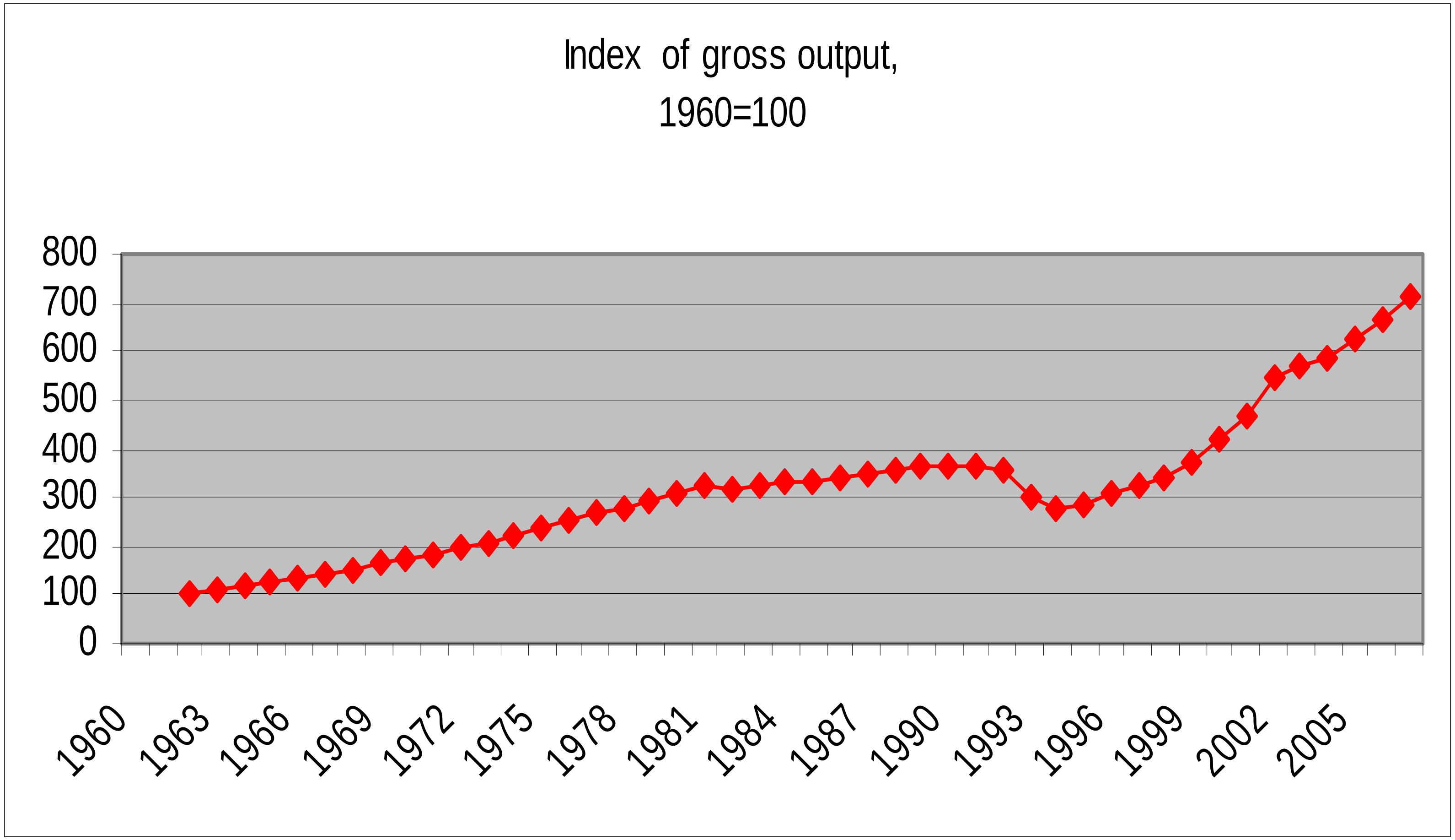
Heavy problems in the light industry – even before the Chinese



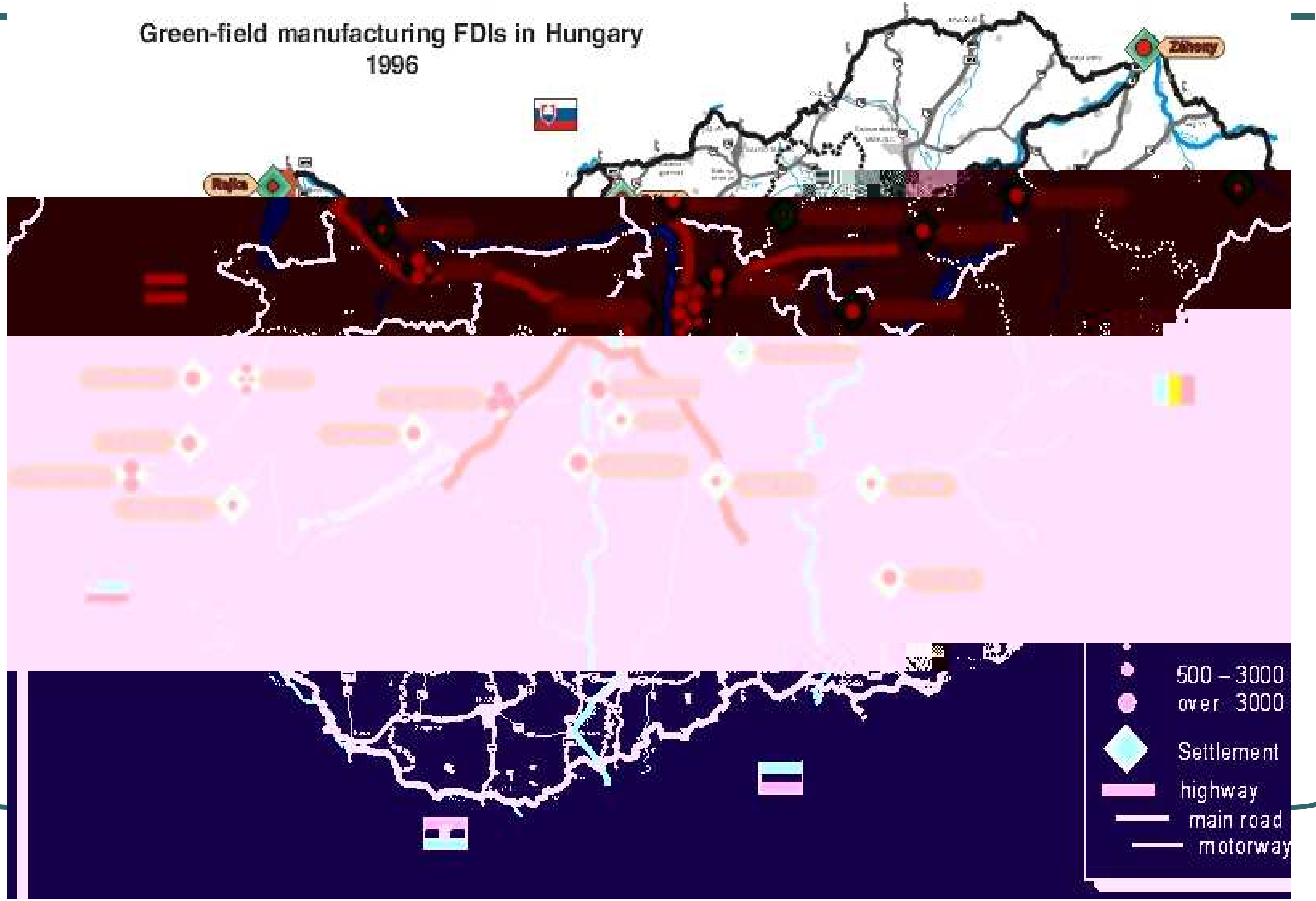
Hungary: strong start; Czechs, Slovaks: catching up fast



Hungarian industry – doing well, on the whole



FDI goes to centre or follow motorways



The second coalition (1994-1998)

- After some hesitation and electioneering, a macro-economic shock in Spring 1995 to reduce deficit
- U-turn in privatisation: sale of large scale (inc. industrial natural monopolies, utilities) to foreign investors
- Entry into OECD, further liberalization
- Export-led industrial growth, industrial zones, state support to sub-contractors

Correction again (1998-2002)

- Slow down of privatisation
- Mostly cautious macroeconomic policy
- Increased support to SMEs
- Demand-increasing policies in housing, construction
- Support to Clusters
- Energy pricing: a political football

Clusters – created by foreign players

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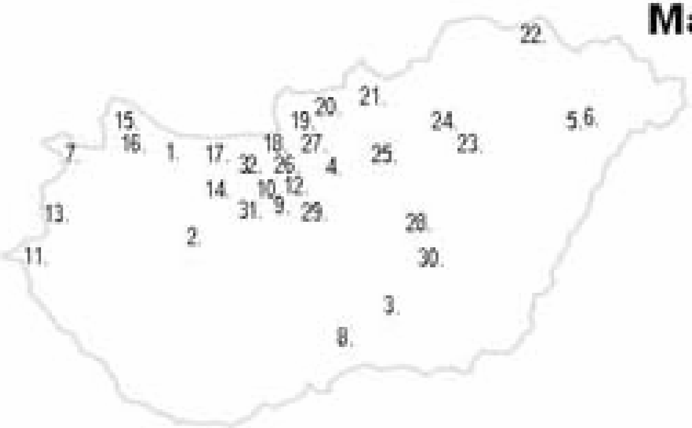
Major Hungarian Automotive Companies



1. Győr – **Erbslöh, Audi, Rába, Lear**
2. Veszprém – **Bakony Művek, Continental Teves, VALEO**
3. Kecskemét – **Knorr-Bremse**
4. Gödöllő – **EMT**
5. Nyíregyháza - **AIP, Hübner**
6. Nyíregyháza - **Michelin**
7. Sopron – **Semperform**
8. Kiskőrös – **Eckerle**
9. Diósd – **Daewoo-MGM**
10. Budaörs – **VOGEL-SITZE**
11. Szentgotthárd – **GM Opel**
12. Budapest – **TEMIC, TAURIL, IKARUS, NABI, RÁBA, General Electric, Michelin, Webasto, UBP, BEROHA**
13. Szombathely – **Delphi-Packard, LuK Savaria, BPW RÁBA**
14. Mór – **Benteler, Michels, Sews, Hammerstein, Lear**
15. Mosonszolnok – **SAPU, BOS**
16. Mosonmagyaróvár – **VOGEL and NOOT**
17. Tatabánya – **Souftec, Wescast**
18. Esztergom – **Suzuki**
19. Nagyoroszi – **KNAUS-TABBERT**
20. Balassagyarmat – **Delphi Calsonic**
21. Salgótarján – **MITSUBA**
22. Sátoraljaújhely – **Prec-Cast**
23. Mezőkövesd – **Delco-Remy**
24. Eger – **ZF Hungária**
25. Hatvan – **Bosch, Sala Burgess**
26. Solymár – **Johnson Controls**
27. Vác – **Zollner**
28. Jászárokszállás – **Zeuna Stärker**
29. Dunaharaszti – **Schwartzmüller**
30. Szolnok – **Isringhausen**
31. Székesfehérvár – **Denso, Alcoa, Loranger, Visteon, Ibiden**
32. Oroszlány – **Wescast-Linamar**

Accession to EU and spending spree for years (2002-2006)

- Increased public spending, wage growth, loss of price competition
- Boom and bust in infrastructure-related construction
- Tax policies: U-turns
- Further privatisation (banks, airport, oil and gas) – again in order to generate revenues

Hungary is a service economy with significant industry

Denomination	Structure in 2007 (%)
GDP, total	**100.0[a]**
Of which:	
agriculture, hunting, forestry and fishing	4.2
industry	25.3
construction	4.2
trade, repair of vehicles and household goods; hotels [illegible]	[illegible]

The Hungarian industrial and construction output

Period	Industrial production			Output of construction		
	previous quarter = 100.0[a]	same quarter of the previous year = 100.0	since the beginning of the year[b]	previous quarter = 100.0[a]	same quarter of the previous year = 100.0	since the beginning of the year[b,c]
2005						
Q1	101.0	101.9	101.9	106.9	108.5	108.5
Q2	105.1	109.4	105.7	107.8	115.4	112.7
Q3	100.1	108.5	106.7	102.7	122.4	116.8
Q4	102.9	107.8	107.0	97.1	114.8	116.1
2006						
Q1	102.7	113.1	113.1	99.5	109.6	109.6
Q2	102.8	107.0	109.9	95.1	91.9	98.3
Q3	101.8	109.9	109.9	105.0	96.6	97.6
Q4	103.8	110.0	109.9	99.3	100.4	98.5
2007						
Q1	101.4	109.2	109.2	96.7	99.7	99.7
Q2	100.8	107.7	108.5	90.9	93.8	96.2
Q3	103.6	109.2	108.7	91.4	80.2	89.4
Q4	100.0	106.6	108.1	95.8	78.3	85.9

[a] *Seasonally adjusted index, corrected with working days. Complete time series may be modified at every publication.*
[b] *Until the end of the concerned quarter, the same period of the previous year = 100.0.*
[c] *Data derive from interim data collection and may differ from annual data. According to revised annual data volume of output of construction rose by 18.8% in 2005 and fell by 0.7% in 2006 compared to the previous year.*

Machinery, transport equipment are the big items

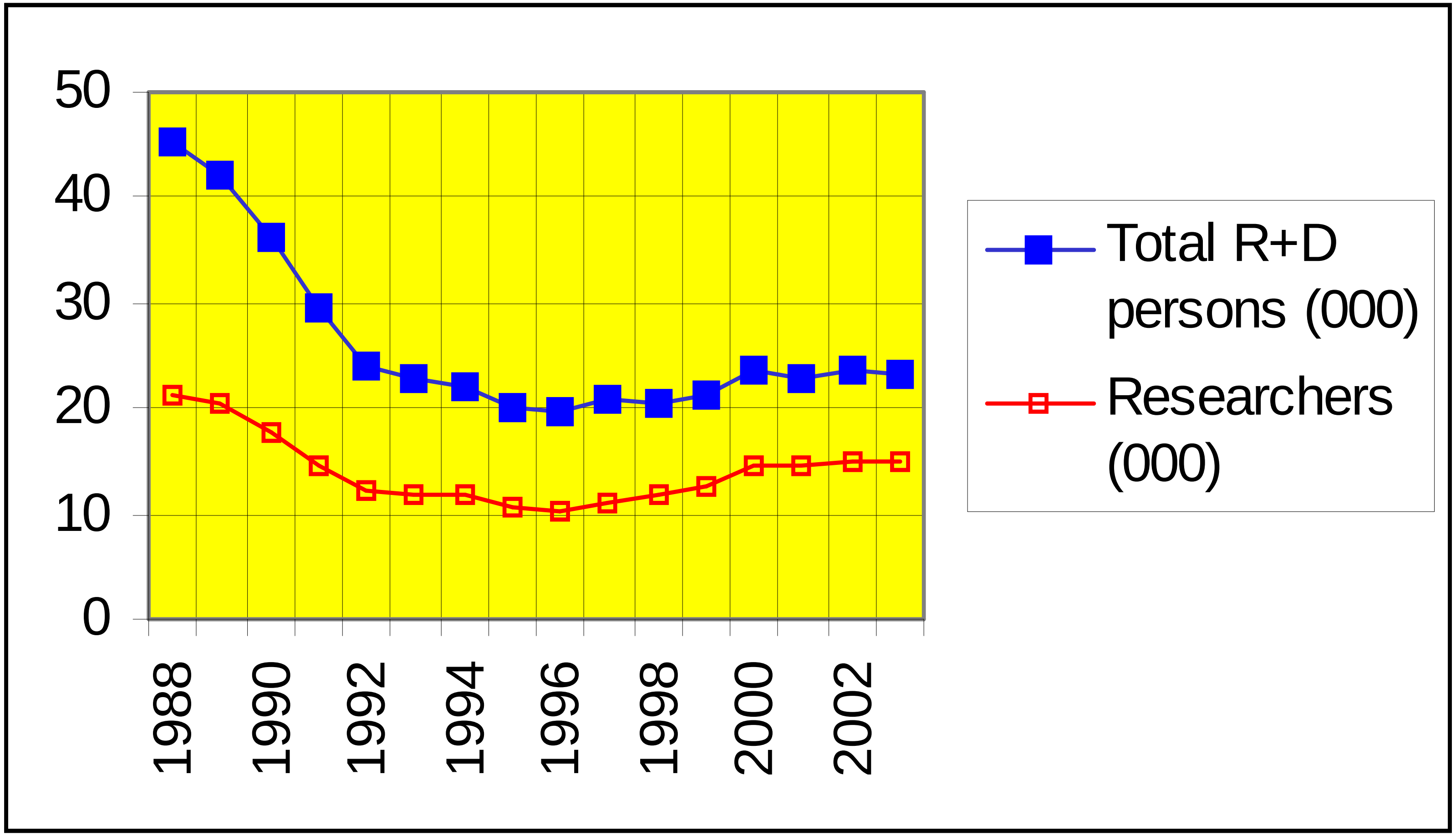
Denomination	2007 (%)[a]
Industrial production[b]	**100.0**
Mining and quarrying	**0.3**
Manufacturing	**92.3**
Manufacture of food products, beverages and tobacco	9.7
Manufacture of textiles	1.2
Manufacture of leather products and footwear	0.6
Wood working industry	0.8
Manufacture of paper, publishing and printing	2.9
Manufacture of coke, refined petroleum products	6.0
Manufacture of chemicals	6.7
Manufacture of rubber and plastics	3.7
Manufacture of other non-metallic mineral products	2.8
Manufacture of basic metals and fabricated metal products	7.6
Manufacture of machinery and equipment	5.4
Manufacture of electric machinery and optical instruments	26.5
Manufacture of transport equipment	17.3
Manufacturing n.e.c.	1.1
Electricity, gas, steam and water supply	**7.3**

Commodity pattern of imports, exports - 2007

(million EUR)

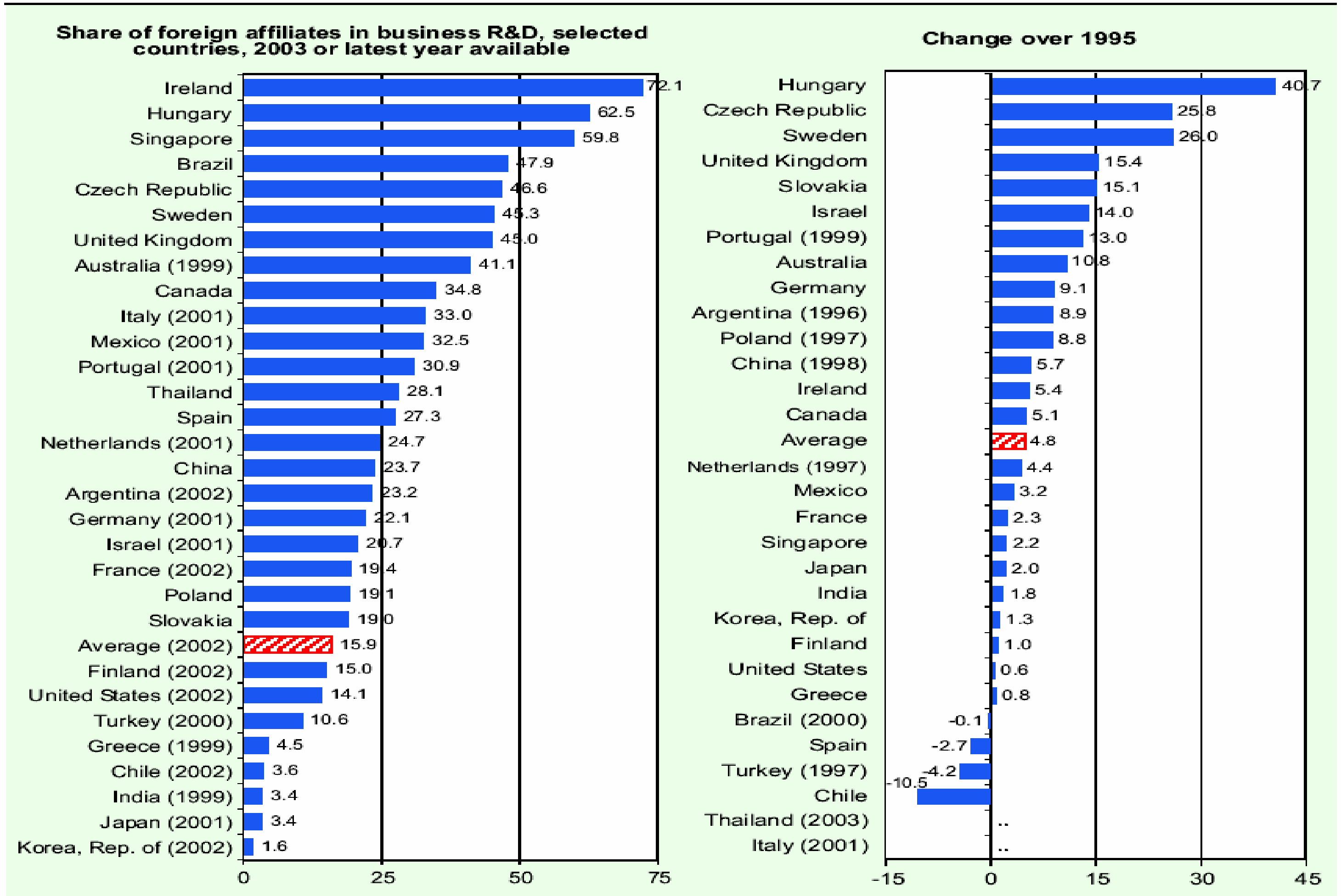
Main commodity group	EU-27	Of which		Extra-EU	Total
		EU-15	new member states		
			Imports		
Food, beverages, tobacco	2 669.8	1 770.0	899.9	235.3	2 905.1
Raw materials	767.1	566.2	200.9	394.0	1 161.1
Fuels, electric energy	1 565.4	762.3	803.1	5 057.6	6 623.0
Manufactured goods	19 072.9	14 913.6	4 159.4	3 118.5	22 191.4
Machinery and transport equipment	23 804.4	20 235.2	3 569.1	12 083.9	35 888.3
Total	**47 879.6**	**38 247.2**	**9 632.4**	**20 889.3**	**68 768.9**
			Exports		
Food, beverages, tobacco	3 496.4	2 140.9	1 355.4	770.5	4 266.9
Raw materials	1 161.8	946.2	215.7	151.0	1 312.9
Fuels, electric energy	1 155.4	596.7	558.7	800.7	1 956.1
Manufactured goods	14 735.5	10 147.8	4 587.7	3 512.9	18 248.4
Machinery and transport equipment	33 409.2	26 621.3	6 787.9	9 267.9	42 677.1
Total	**53 958.3**	**40 452.9**	**13 505.4**	**14 503.0**	**68 461.3**

Increase of foreign ownership – less need for domestic research and development



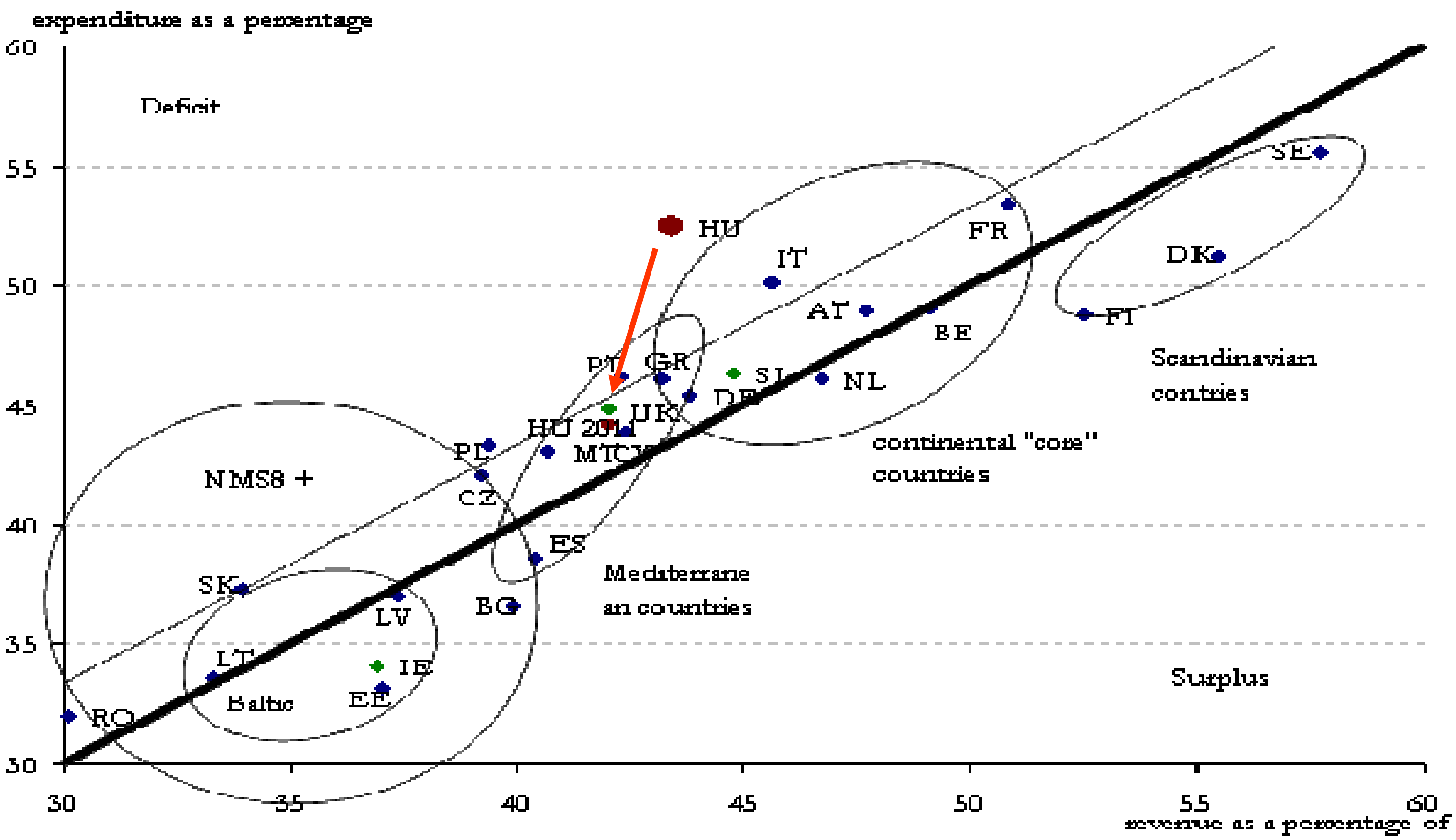
Foreign owned firms dominate R&D

Figure IV.6. Trends in R&D spending by foreign affiliates, selected economies, 1995-2003
(Per cent)



Source: UNCTAD's calculations, based on national sources and data provided from the OECD AFA database.

Hungary an outlier – with a convergence programme



Still room for industrial strategy

- Hungary is not doing too well with Lisbon agenda
- Economic slow down hits mostly SME in industry and construction
- Duality of the economy: dynamic transnationals – stagnating domestic players
- Debates on education system, labour market regulation, tax system