



HUNGARY, 2008



HUNGARIAN CENTRAL
STATISTICAL OFFICE

**HUNGARY,
2008**

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2008**

Budapest, 2009

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ISSN: 1417-7722

The publication was prepared on the basis of 2008 data which are to be considered preliminary data. In some fields, data of the previous year have not been available yet, and, according to the practice in the previous years, the available most recent annual data were used. Sources of international data were characteristically official international organizations (UNO, Eurostat, IMF, OECD).

Date of final version of the manuscript: 15 May 2009.

Editor in charge: Dr. Péter Pukli

Contents

| | |
|---|-----------|
| Population, vital events | 7 |
| Employment and unemployment | 13 |
| Income and consumption | 17 |
| Earnings..... | 17 |
| Social incomes in cash..... | 19 |
| Financial assets of households..... | 20 |
| Consumption..... | 23 |
| Consumer prices..... | 24 |
| Living conditions | 27 |
| Housing..... | 27 |
| Health..... | 28 |
| Social services..... | 31 |
| Legal and public security | 35 |
| Education, science, culture | 39 |
| School attainment, education, training..... | 39 |
| Research and development, innovation..... | 42 |
| Culture..... | 44 |
| Economic processes | 47 |
| International economic events..... | 47 |
| Macroeconomic processes in Hungary..... | 49 |
| Investment..... | 53 |
| Foreign direct investments..... | 56 |
| Balance of payments, foreign debt..... | 58 |
| External trade..... | 60 |
| General government and its subsystems..... | 64 |
| Performance of branches | 67 |
| Agriculture..... | 67 |
| Industry..... | 69 |
| Construction..... | 73 |
| Transport..... | 74 |

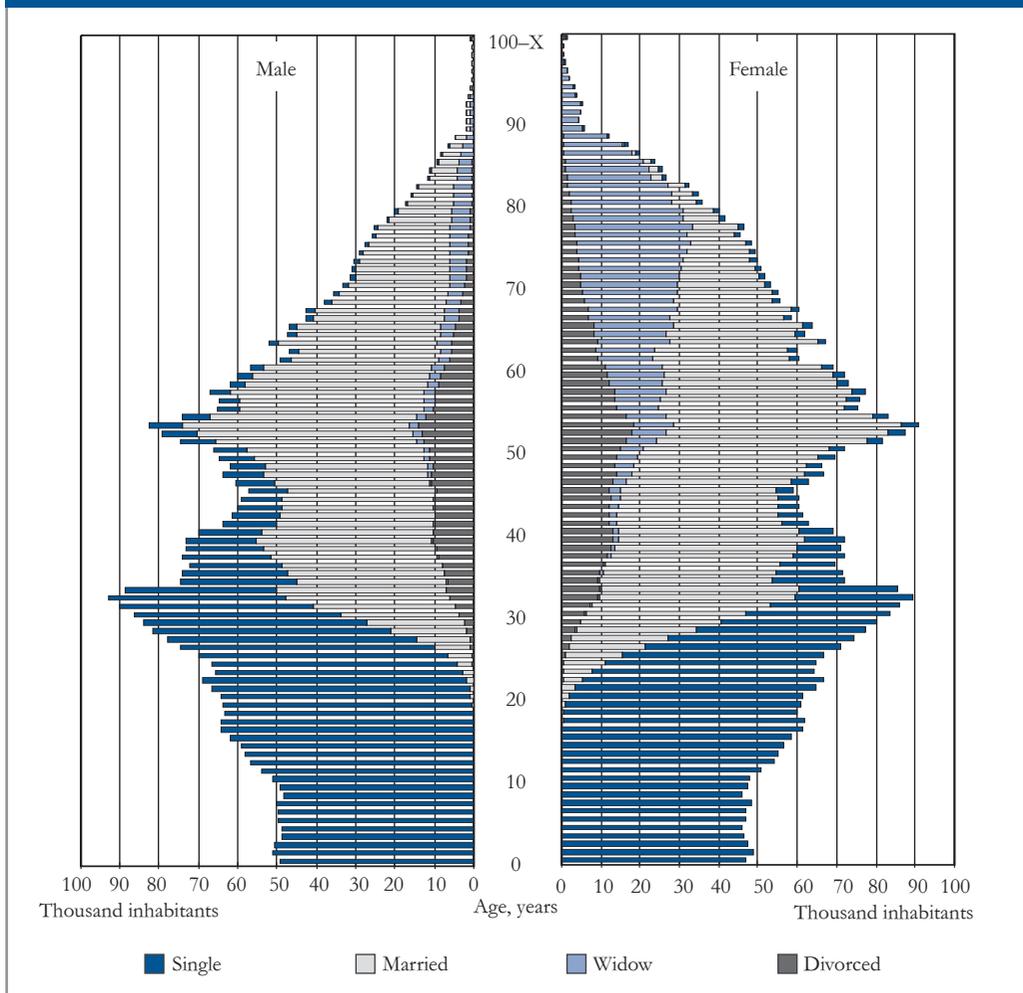
| | |
|---|-----------|
| Telecommunication, internet..... | 77 |
| Retail trade..... | 78 |
| Tourism, catering..... | 79 |
| Energy..... | 83 |
| State and protection of the environment..... | 85 |
| List of figures | 89 |
| List of tables | 91 |

Population, vital events

On 1 January 2009, the **population of Hungary** was 10 million 31 thousand, within that 4 million 761 thousand males and 5 million 270 thousand females. The number of women per thousand men was 1,107. Among vital events determining the number of population, the number of births increased and

that of deaths decreased. Besides, the positive international net migration exceeded the value a year earlier. The number of marriages fell further, while that of divorces remained essentially unchanged. The change in partner relationship forms is shown by the fact that the proportion of extramarital births grew

Figure 1: Number of population by sex, age and marital status, 1 January 2008



further, though the majority of children continues to be born within marriage.

In the **age composition** of the population, the changes, having lasted for a long time, continued. The age-tree illustrating the age composition is characterized by a male surplus under the age of 40, a gradual equalization in the age between 40 and 44 and an increasing female surplus over the age 45. In connection with the changes in the number of births, the number of nursery- and primary school-age (7–14 year-old) children has fallen sharply (by 12 and 17%, respectively) since the turn of the millennium, while that of infant nursery-age children slightly increased (by nearly 2.5%). The number of population in economically active age (15–64 year-old) hardly changed in the period between 2001 and 2008, while that of population over 64 rose by more than 6%. Since 2006, the share of population aged 65 years and over has exceeded the share of 0–14 year-old population. On 1 January 2009, the rate was 110 old-age people per 100 child-age people.

The change in the **forms of cohabitation**, having lasted for many years, continued in 2008, too. This meant a continuous decrease of people living in marriage on the one hand and a considerable increase in the share of unmarried people on the other hand. Since 2000, the share of unmarried people among the population aged 15 years and over has grown from 26.4 to 31.7%, while that of divorced people rose from 9.3% to 10.5%. In parallel, the rate of married people decreased by 6 percentage points. Less than half of the population (46.5%) is married.

One feature of the change is the significant increase in the number and proportion of people living in cohabiting relationship. According to the data of the censuses and the micro-census in 2005, among the population aged 15 years and over, 250 thousand people chose this form of partner relationship in 1990; in 2001, this number was 600 thousand, while in 2005, already more than 740 thousand. Their share within the given age-group grew from 3% to 8.7% during 15 years.

In 2008, there were 40,100 **marriages**, 1.8% fewer than a year before and 9.9% fewer than two years earlier. Concerning the average age of marrying

people, the shift towards older age-groups continued. Since the turn of the millennium, men and women have got married at three years older age on the average.

Similarly to the previous years, there was no essential change in the number of **divorces**. In 2008 the courts dissolved 25,300 marriages, about the same number as a year before. A slow shift can be observed in the age composition of divorcing people, divorces occur at a later age due to the older age of getting married. In addition to that, it also refers to the fact that in case of long marriages, the frequency of divorces increases.

The **number of births** sank below 100 thousand in 1998 for the first time, and has not reached that level since then. In the three years after the nadir in 2003, a slow growth occurred, which was followed by a decrease again in 2007. In 2008, 99,200 children were born, 1,600 (1.6%) more than the year before, but slightly fewer than two years earlier. The number of live births per thousand inhabitants rose from 9.7 in 2007 to 9.9. This rate is the same as two years earlier and higher than in the other years of the last decade. The expanded learning time, people becoming independent at later age and the changes in the forms of cohabitation all have had an impact on the number of live births for many years already.

Examining the age-groups of child-bearing women, a new phenomenon is that the fertility of teenagers and, for the first time since 1990 of women aged 20–24 slightly increased. However, on the whole, hardly more than one fifth of all newborns were born to young women under 25 years of age. Child-bearing is the most frequent in the age-groups of 25–29 and 30–34, and the rise was 22% in the latter in the last five years. On the whole, the slight increase of fertility of women aged 30 and over continues, and as a result, nearly 48% of births occurred in this age-group as opposed to 25% in 2000. Considering the main age-groups of women in childbearing age, fertility did not increase last year only in the most fertile age-group of 25–29 years.

The increase in the share of children born outside marriage is linked to the change in the partner relationships. In the history of official vital statistics,

this rate was the highest in 2008, 39.5% of newborn children were born outside marriage contrary to 37.5% in 2007. The surplus in births last year was fully due the increase in extramarital births, as the number and share of children born in marriage fell further.

Among live births, the share of premature babies weighing less than 2,500 grams has not practically changed since 2004. Last year it was 8.3% as opposed to 8.2% in 2007.

In 2008, the **level of fertility** slightly improved compared to the previous year and corresponded to the level two years before. Considering last year's fertility, hundred women would give birth to 135 children during their lifetime contrary to the figure of 132 in 2007. The long-term reproduction of the population would be guaranteed by a rate of 210, thus simple reproduction was not guaranteed with the last year's fertility rate either.

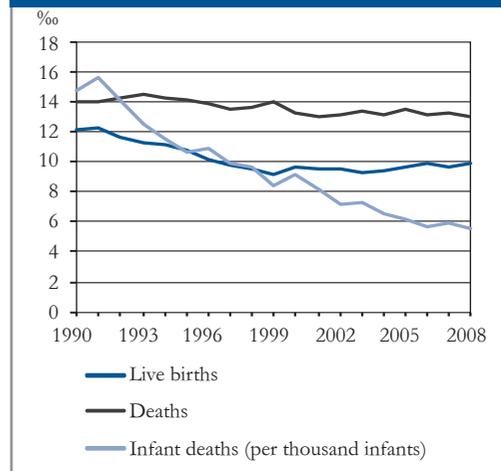
The decrease of abortions having lasted for a long time broke off in 2008. The 44,300 induced **abortions** carried out in 2008 were 1% (about 430 abortions) more than in the previous year. The increase in the frequency of abortions affected women under 25 and above 40 years of age.

From the beginning of the 1990s, a basically declining trend in the number of **deaths**, interrupted by fluctuations, can be observed. The number of deaths exceeding 150 thousand in 1993 was the highest value since the 2nd World War. The decline, which was broken off by a slight increase in one or two years began at that time. The 130,000 deaths in 2008 meant an improvement (2.2%) not only compared to the previous year, but it was the lowest value in the past 32 years as well. The absence of influenza epidemic and the long-lasting heat-wave could also contribute to the decrease.

The death rate was 13 per mille in 2008, 0.2 per mille point lower than a year before. Within this, the improvement was 0.4 per mille point in case of men (13.9 per mille) and 0.1 per mille point in case of women (12.1 per mille). Mortality decreased in all age-groups of males over 30 years of age, in the others it was the same as in the previous year. A slight increase occurred in the age-groups 60-64 and 85-89 of females.

The number of infants who died before their first birthday decreased from 577 to 555. The **rate of infant mortality** in 2008 was the lowest value so far (5.6 per mille), by 0.3 per mille point lower than a year before. Beside the unchanged male infant mortality, female infant mortality improved significantly, by 11%, which resulted in the increase of the difference between sexes. Last year, out of ten thousand male infants 62 died before their first birthday, while this number was 50 for female infants.

Figure 2: Live births and deaths per thousand inhabitants



In Hungary, the number of deaths has been exceeding the number of births since 1981, which has resulted in the natural decrease of the population. This has been partly offset by positive international net migration since the beginning of the 1990s. In 2008, the rate of natural decrease diminished, the number of deaths exceeded the number of births by 30,800 as opposed to 35,300 in 2007. Besides, the surplus from international migration increased last year from 14,600 to 16,800. The natural decrease of population was by nearly 4,500 less, while the gain from international migration by 2,200 more than a year before. As a consequence of all these, the actual decrease fell from 20,800 in 2007 to 14,000.

Table 1: Data on main vital events by regions, 2008

| Regions | Live births | Deaths | Natural decrease (-) | (per thousand inhabitants) | | |
|-----------------------|-------------|-------------|----------------------|----------------------------|---------------|------------------------------|
| | | | | Internal | International | Actual increase, decrease(-) |
| | | | | net migration | | |
| Central Hungary | 10.5 | 12.2 | -1.6 | 8.0 | 2.9 | 9.2 |
| Central Transdanubia | 9.5 | 12.5 | -3.0 | 0.4 | 1.0 | -1.6 |
| Western Transdanubia | 9.0 | 12.6 | -3.7 | 2.4 | 1.3 | 0.0 |
| Southern Transdanubia | 8.9 | 13.4 | -4.4 | -3.6 | 1.3 | -6.7 |
| Northern Hungary | 9.9 | 14.0 | -4.1 | -7.8 | 0.8 | -11.1 |
| Northern Great Plain | 10.3 | 12.8 | -2.5 | -6.1 | 1.5 | -7.1 |
| Southern Great Plain | 9.0 | 13.8 | -4.7 | -2.9 | 1.4 | -6.2 |
| Country, total | 9.9 | 13.0 | -3.1 | - | 1.7 | -1.4 |

The number of **internal migrations** was 428 thousand last year, 86 thousand (nearly 17%) less than in 2007. Within this, the number of permanent internal migrations was by 3.5%, while that of temporary internal migrations¹ by 30% less than in the previous year.

In the last fifteen years, one determinant of internal migration in Hungary was the outward migration from Budapest, which showed a declining tendency. This changed in 2007 and 2008, when the balance of internal migration in Budapest became positive: the population of the capital grew by 5,900 persons in both years. The balance of internal migration was slightly positive in the other towns, too, while it was negative in the villages due to temporary internal migrations. Among regions, internal net migration showed an outstandingly positive balance in Central Hungary, and it was positive in Central Transdanubia and Western Transdanubia as well. The other regions suffered a loss in internal migration, and the population-retaining power of Northern Hungary and Northern Great Plain weakened the most with internal migration losses of 9,600 and 9,300 persons, respectively, in 2008.

Similarly to the previous three years, **international net migration** was positive in each region of Hun-

gary also in 2008, within that it continued to be the highest in Central Hungary with 8,300 persons. Beside the central region, Northern Great Plain, Southern Great Plain and Western Transdanubia are considered attractive areas. In Northern Great Plain, the gain from international migration increased significantly reaching 2,300 persons.

Among regions, the actual population number increased only in Central Hungary last year, by 26,800 persons, thus exceeding by 2,100 the number in 2007. In Western Transdanubia, the natural decrease was offset by the positive international net migration. In the other regions, the actual population size decreased, most of all in Northern Hungary and Northern Great Plain.

On 1 January 2009, there were 184,500 **foreign nationals** in Hungary **holding valid residence permits**. This was 5.6% or 9,800 up on the previous year. At present, 1.8% of the population of Hungary is foreign nationals. Among them, the proportion of men and women is fifty-fifty. The overwhelming majority came invariably from Europe, within that principally from Romania, Ukraine, Serbia and Germany. 41% of immigrants live in Budapest, 38% in other towns and 21% in villages. The average

¹ According to Act LXVI of 1992, the number of temporary internal migrations includes also those, who after a certain period did not prolong the registration of their place of stay and so it ceased automatically. According to Act CLXXVIII of 2005, from 2006 on this period changed from two years to five years. The effect of the change appeared in 2008 first. This year for the first time, the places of stay registered in 2006 were not ceased due to the lack of renewal.

Table 2: Main demographic indicators of some EU member states, 2008

| (per thousand inhabitants) | | | | | |
|----------------------------|-------------|-------------|-------------------------------|--------------------------------|----------------------------------|
| Country | Live births | Deaths | Natural increase/ decrease | International net migration | Actual increase/ decrease (-) |
| EU-27 average | 10.8 | 9.7 | 1.1 | 3.3 | 4.4 |
| Ireland | 18.1 | 6.1 | 12.0 | 14.1 | 26.1 |
| Slovenia | 10.0 | 9.1 | 0.9 | 12.6 | 13.5 |
| Spain | 11.0 | 8.7 | 2.3 | 10.2 | 12.5 |
| Italy | 9.6 | 9.8 | -0.2 | 8.1 | 7.9 |
| United Kingdom | 13.0 | 9.3 | 3.6 | 3.3 | 6.9 |
| France | 12.9 | 8.4 | 4.5 | 1.0 | 5.5 |
| Estonia | 12.2 | 12.8 | -0.6 | 0.1 | -0.4 |
| Hungary | 9.9 | 13.0 | -3.1 | 1.7 | -1.4 |
| Germany | 8.3 | 10.3 | -2.0 | 0.1 | -1.9 |
| Latvia | 10.8 | 14.0 | -3.2 | -1.1 | -4.3 |
| Lithuania | 10.5 | 13.2 | -2.6 | -2.1 | -4.8 |
| Bulgaria | 9.4 | 14.2 | -4.8 | -0.2 | -5.0 |

age of immigrants is lower than that of the native population, and among them the largest number and proportion were 20-39 year old. Their proportion among foreigners residing in Hungary was 52%.

In 2007, 8,442 people were granted **Hungarian citizenship**, while this number was 6,172 in the preceding year. 72% of citizenship recipients were former Romanians and 9-10% Serbians and Montenegrins and Ukrainians.

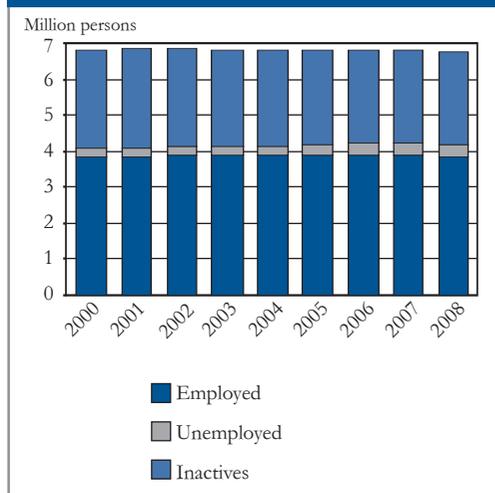
Compared to EU member states, live birth rate continued to be low in 2008 in Hungary, while death

rate was one of the highest, and, as a result of these, the natural decrease was the third highest after Bulgaria and Latvia. Natural decrease was characteristic of another five EU countries, but, except in Bulgaria, Latvia and Lithuania, it was more or less offset by positive international net migration. On the whole, the actual number of population decreased in 2008 in 7 of the 27 EU member states, and Hungary is among them.

Employment and unemployment

In 2008, there were considerable changes in the labour market: the number and share of employed people fell significantly, while that of unemployed increased perceptibly. This meant at the same time that in respect of EU member states, the labour market position of our country deteriorated. Regional differences in the country are invariably significant and growing. In the population aged 15-64, the **number of employed** persons was 3 million 849 thousand on the average, 48 thousand (1.2%) fewer than in the previous year. Early retirement, due to the change in regulation concerning pension determination, contributed to the decrease. The **number of unemployed** persons amounted to 329 thousand, 17 thousand up on the value of 2007. Unemployment rate was 7.9% in 2008, which was the highest value after 1998. As a consequence, the number of economically active (employed or unemployed) population aged 15-64 fell by 31 thousand (0.7%) to 4 million 178 thousand.

Figure 3: Distribution of the population aged 15–64



Employment rate of the population aged 16-64 was 56.7%, 0.7 percentage point higher than at the

turn of the millennium, but 0.6 percentage point lower than both in 2006 and in 2007. The level of employment was low in international comparison, and the lag behind the EU-27 average has increased from 6.2 to 9.2 percentage points since the turn of the millennium. Within this, a deterioration of 1.1 percentage points occurred last year. In 2007, employment rates of Poland and Malta were lower than the Hungarian one, while last year only that of the latter country proved to be so. In the background of the very low employment rate compared to EU, are the worse employment opportunities of those who have primary educational attainment; among them, 27% were employed as opposed to the 48% in the EU. In case of people with secondary or tertiary educational attainment, the lag behind the EU-average was smaller in 2008 (7.3 and 4.4 percentage points, respectively).

Another reason for low employment is that atypical forms of employment are not really common in Hungary. The proportion of part-time employment and employees with fixed-term labour contract increased slightly. The proportion of employees working in part-time jobs was 4.3% in 2008, which equalled the rate in the Czech Republic. The EU-27 average was 17.6%, and, within that, the rate was the highest in the Netherlands (46.8%). 7.8% of the employees aged 15–64 had a fixed-term labour contract, which was up a half percentage point on the previous year. (The EU-27 average was 14.0%.)

The **gender composition** of employed persons changed significantly in 2008, the number of employed men fell by 33 thousand over the year, while that of employed women decreased to a smaller extent, by 15 thousand. Out of one hundred employed persons 54 were males and 46 were females. Employment rate was 63.0% for men and 50.6% for women.

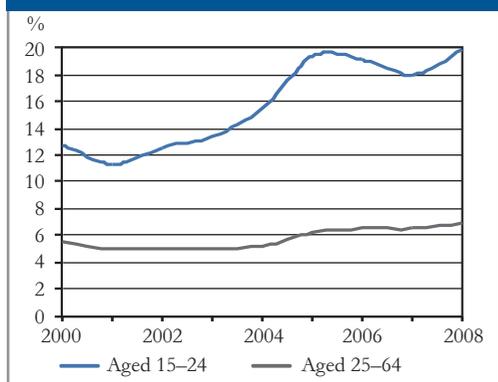
In the **sectoral** structure of employment, the weight of service branches increased in a way that the number of 15-64 year-old people employed in the sector did not practically change, while this number

fell slightly in industry and agriculture. The headcount decrease was 35 thousand in industrial branches and 9 thousand in agriculture over the year.

The overwhelming majority (88%) of employed persons worked as employees. Their proportion was rising slightly while that of people working at sole proprietorships and partnerships did not change compared to the year before. The proportion of these latter amounted to 11.9% of all employed people. The number and proportion of cooperation members and family helpers, which can be considered marginal, fell continuously in the past years; in 2008 their proportion was altogether 0.4%.

In the years following the turn of the millennium, both increase and decrease could be seen in the number of **unemployed** people. Last year, the number of unemployed people grew by 66 thousand compared to 2000 and was 17 thousand up on the year before. The unemployment rate was 7.9%, 0.5 percentage point higher than in 2007. Within this, female unemployment rate grew from 7.7% to 8.1%, while male unemployment rate from 7.2% to 7.7% over the year. In international comparison, Hungary is among the countries with a relatively high unemployment rate. The level of unemployment is similar to that of Greece, Latvia and Germany, and is much lower than in Spain (11.4%) and Slovakia (9.5%). The EU-27 average was 7.1%.

Figure 4: Changes in unemployment rate



In 2008, all age-groups were characterized by an increasing unemployment level. Among them the position of young people aged 15–24 years is the most unfavourable. The number and proportion of unemployed belonging to this age-group grew significantly over a year, the latter increased from 18.0% to 19.9%. Their chances to find a job are reduced by the fact that every third of them had only primary educational attainment, and that the rate of long-term unemployed, i.e. those not having a job for at least one year, was much higher among them.

The share of those not having a job for at least one year was nearly half (48.4%) of all unemployed people. The number of long-term unemployed rose by 5.6% compared to the preceding year due to the increase of 13% in the number of those not having a job for at least two years. (The majority of long-term unemployed has completed only primary school or secondary school without G.C.E.)

In 2008, the number of **job vacancies** decreased compared to the year before, and amounted to 35 thousand on the average, which meant a fall of about 6.9%. 1.3% of all jobs were unfilled in 2008 as opposed to 1.4% in 2007. Within this, the decline was higher in the private sector, three fourths of the decrease occurred here. In the budgetary sector, the number of job vacancies was 7.1% less than a year earlier. Within the year, the situation was the worst in the 4th quarter, when the workforce demand fell by 21% compared to the same period of the previous year, which fully affected the private sector, and within that especially the branches of the manufacturing industry. Unlike in the past years, the significantly diminishing workforce demand did not only damage the opportunities of unskilled people, but also those of the qualified workforce.

The tendencies in the labour market resulted in the growth of the number of **economically inactive population**. Among the 15–64 year-old population, 2 million 616 thousand people did not appear in 2008 in the labour market either as employed or as unemployed, their number exceeding by 25 thousand the value a year before. The demographic composition of inactive population differed significantly from that

of the total population. This was manifested in the fact that there were much more women among them (60%), which was first of all in connection with child raising and other family obligations. The highest level of inactivity was seen among young people aged 15–24 and the 55–64 year-old population; three fourths of the former and two thirds of the latter group were inactive. Young people were mainly studying, while older people received one or the other form of pension.

41% of the economically inactive 15–64 year-old population were pensioners, 11% received child-care benefit, 3% unemployment benefit and 2% orphan’s benefit or nursing fee. 57% of the inactive population had a regular and demonstrable income. The remaining population belonged to the classical category of dependents who did not have any income. Within that, 31% were studying in full-time education, 12% were so-called other dependents or the source of their subsistence costs was unknown. The share of the latter group increased compared to the year before.

12% of the inactive population declared in 2008 that they would work if they had an opportunity. The decisive majority (2.3 million people) did not want to work, so they did not take any step to enter the labour market (again).

The labour market status of **regions** has changed to some extent, which resulted in the increase of the regional differences within the country. Among the population aged 15–64, the employment rate was the highest (62.7%) and unemployment rate the lowest (4.6%) in Central Hungary. Beside the unchanged

level of employment rate, unemployment rate fell by 0.2 percentage points compared to the previous year. The labour market situation was the worst in Northern Hungary, since the employment rate diminished by 1.3 percentage point there, and the rate of unemployed people grew by 1.1 percentage points among the economically active population. Thus, the employment rate was the lowest (49.5%) and the unemployment rate the highest (13.4%) in this region. The other five regions were characterized by a decreasing employment rate and – except for Western Transdanubia – an increasing unemployment rate. The increase of regional disparities is shown by the fact that the difference between the region with the lowest and the region with the highest unemployment rate rose from 7.5 percentage points to 8.8 percentage points over the year.

Table 3: Labour market trends in the regions
(among population aged 15–64 years)

| Regions | (%) | | | |
|-------------------------|-----------------|-------------|-------------------|------------|
| | Employment rate | | Unemployment rate | |
| | 2007 | 2008 | 2007 | 2008 |
| Central Hungary | 62.7 | 62.7 | 4.8 | 4.6 |
| Central Transdanubia | 61.8 | 60.3 | 5.0 | 5.9 |
| Western Transdanubia | 63.4 | 62.1 | 5.0 | 5.0 |
| Southern Transdanubia | 51.2 | 51.0 | 10.0 | 10.3 |
| Northern Hungary | 50.8 | 49.5 | 12.3 | 13.4 |
| Northern Great Plain | 50.5 | 49.9 | 10.9 | 12.0 |
| Southern Great Plain | 55.2 | 54.5 | 7.9 | 8.8 |
| National average | 57.3 | 56.7 | 7.4 | 7.9 |

Income and consumption

The measures aimed at improving the economic-financial balance significantly affected the income and consumption of the population. Health insurance and employee's contributions burdening employees was raised in September 2006, and a second rise of health contribution rate followed in January 2007. As a result, the increase of net wages slowed down considerably. Simultaneously, the growth rate of consumer prices strengthened, VAT rates and excise duty rose, the gas price support system was transformed, and energy prices falling within the competence of authorities increased. The considerable decrease of social benefits in kind in 2007 moderated the dynamics of both the income and the consumption.

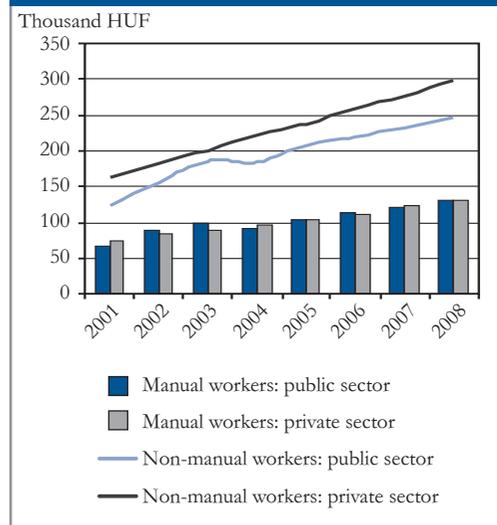
Earnings

Gross wages of employed people grew in nominal terms by 8–9% between 2005 and 2007. Contrarily, the dynamics of net earnings was lower due to the increasing restrictions and it showed larger fluctuation year by year. The increase of net wages was especially modest (3.0%) in 2007, when the rise of consumer prices accelerated to 8%, thus the real value of net wages was by 5% less than a year before.

A somewhat moderated growth of gross nominal wages and a growth of net wages faster than a year before were characteristic of last year. The growth dynamics of wages in the private sector was determined by the minimum wage rise of 5.3% (from HUF 65,500 to HUF 69,000) and by the introduction of the second phase of "skill minimum wage" linked to educational attainment. The change of earnings in budgetary institutions was influenced by the payment of the 13th month salary and of the wage supplement of HUF 35,000 paid in two instalments in June and November 2008. (This latter measure was introduced because of the compensation of inflation higher than the planned average wage rise of 5%.) **Average gross nominal wage** per capita in full-time employment was

HUF 198,900 last year. Non-manual workers earned HUF 274,800, while manual workers HUF 130,800. Gross wages grew in nominal terms by 7.5% on 2007, as opposed to 8.0% a year before. Last year, gross wages of employees in the private sector rose by 8.4%, while in public sector by 6.2%. In the last two years, the average wage of manual workers in the private sector exceeded slightly that of employees in the public sector. The average wage for non-manual workers was invariably lower in the public sector than in the private sector, and the difference grew further in 2008. The earnings lag of non-manual workers in budgetary institutions was increasing during the past years: it was 8% in 2003, 13% in 2005 and 21% last year.

Figure 5: Average gross monthly earnings



Earnings differences between the **sectors** slightly changed. Invariably, average gross earnings of employees in financial intermediation were the highest, HUF 433,300, 2.2 times as high as the national average. This was followed by three branches with almost the

same earnings, i.e. by public administration, defence, compulsory social security, electricity and chemical industry, where the gross wages were significantly, by 25–34% above the average. Similarly to the previous years, the lowest average earning (HUF 107,400) was in the manufacturing of textile, textile products and leather products, footwear, which was 54% of the national average. The situation in the branches of hotels and restaurants, manufacturing not elsewhere classified, agriculture, social work and construction was somewhat more favourable, where persons employed earned 61–73% of the national average. In 2008, the gap between the highest and the lowest average earnings increased slightly in the economic branches observed. The average gross earnings of textile industry workers were 25% of those employed in financial intermediation, which figure was 27% one year earlier.

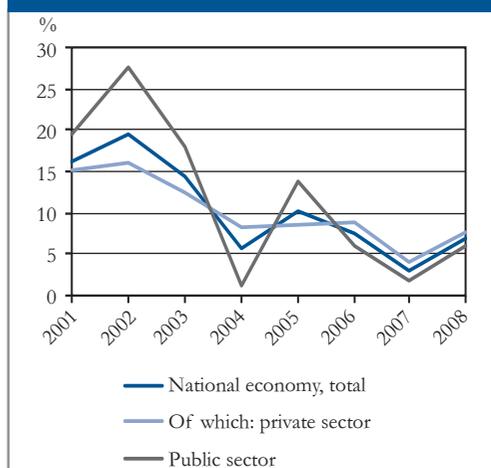
Gross earnings grew generally at a rate above the average in branches where monthly average earnings are high. As opposed to that, in construction, transport, storage and communication, manufacturing, as well as in public administration, education and health and social work belonging to the public sector, the growth dynamics of gross earnings was below the average (5.3–7.0%) compared to the previous year.

In addition to the monthly earnings, **income from work** also includes other benefits in cash and in kind² for people in employment. The sum of “other labour income” rises rapidly and its proportion is increasing continuously. In 2008, the average monthly income from work was HUF 210,700 in the national economy, HUF 11,800 more than average gross earnings. The share of “other labour incomes” was 5.6% as opposed to 5.2% a year before. Other labour income amounts for the highest proportion in public administration and chemical industry (8.5% and 8.2%, respectively), while it is the lowest, 3.6–4.0% in trade and repair, hotels and restaurants as well as in social work.

Average net monthly earnings stood at HUF 122 thousand in 2008, and exceeded at current prices by 6.8% the value in 2007 as opposed to the 3% a

year before. Net earnings amounted to 61% of gross earnings contrary to the 65% two years earlier. The earnings for manual workers were HUF 90,500 and for non-manual workers HUF 157,200. The net earnings difference between these two categories did not change essentially in 2008 either. As a result of the progressive pattern of personal income tax, sectoral differences of net earnings are smaller than those of gross earnings. Net earnings level in the branch with the lowest earnings reached 34% of that in the one with the highest earnings. This figure was 36% a year before.

Figure 6: Changes in average net monthly earnings on the year before



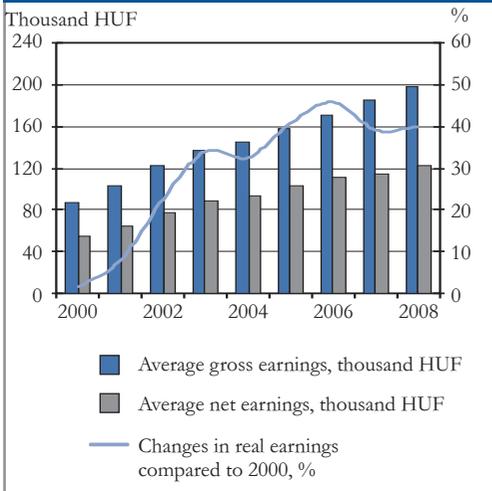
In 2008, the nominal rise in wages show somewhat larger regional differences than in 2007 but the level differences between **regions** remained substantially unchanged. Wages increased by 5.5–6.9% on the year before. Net wages continued to be the highest in Central Hungary, while workers in the two regions of the Great Plain earned the least.

On the whole, **real value of earnings** was up by 40% between 2000 and 2008, within this the increase stopped in the Q IV of 2006, and real earnings diminished by 4.6% in 2007. In 2008, there was an

² Meals and accommodation allowance, reimbursement of travel expenses to work, long service bonus, bonus in kind, company car-related expenses etc.

increase of 0.7%. On the one hand, the growth of net wages exceeding the one a year earlier, and the moderation of consumer price rise on the other hand were in the background of the changes last year. During the year, real earnings decreased in the Q I, while they grew by 0.4-2.1% in the other three. Real earnings rose by 1.2% in the private sector and fell by 0.2% in the budgetary institutions compared to the year before.

Figure 7: Average monthly earnings



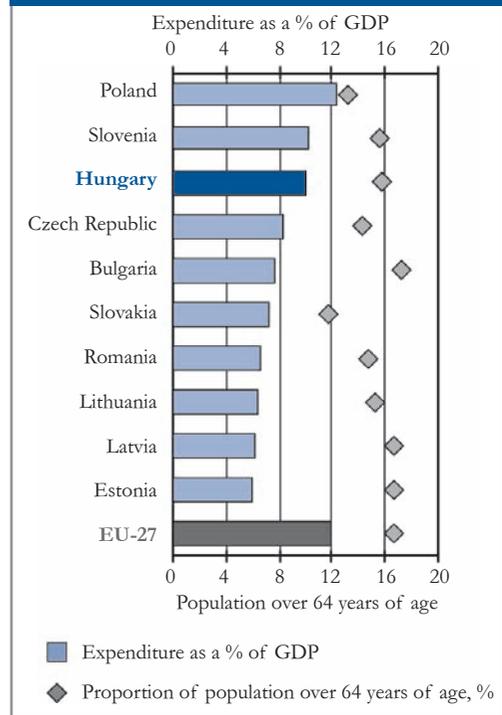
In international terms, the level of earnings is realistic to be analysed in purchasing power standard (PPS) calculated by purchasing power parity, which eliminates the price level differences. The comparison of countries refers to the annual wages in 2007 and to the industrial and services sectors. Hungary is among the countries of lower wage level; it corresponded to 14 thousand PPS in 2007, which was at a similar level as in the Czech Republic and in Slovakia. The wage level continued to be the highest in Luxembourg, the United Kingdom and Germany (nearly three times as high as in Hungary) and the lowest in Bulgaria and Romania (nearly half of the Hungarian). Among the new member states, the wage level of Cyprus was outstanding, nearly 24 thousand PPS, exceeding by

27% the level in Portugal and by 4% the level in Spain among old member states.

Social incomes in cash

The EU member states spent on the average 27% of their gross domestic product on social protection in 2006. Within the EU, this proportion was the highest in France and Sweden (31%), while it was the lowest in the Baltic states (12-13%) and in Romania (14%). In Hungary, this proportion was below the average (22%). The largest component of social protection expenditure is the pension, on which, EU member states spent 12% of their gross domestic product in 2006. The largest proportion of GDP was spent on this purpose in Italy (15%), Austria (14%) and France (13%), while the proportion was the smallest in Ireland (5%), where the demographic situation is

Figure 8: Shares of old-age population and pension expenditure, 2006



much more favourable, and in the Baltic states (6%). In Hungary, the proportion of expenditure spent on pensions was below the average.

In Hungary, the number and share of pension and retirement provision recipients was the highest in 1999; their number was 3 million 184 thousand, 31% of the total population. Then their number and, to some extent also their share decreased. On 1 January 2009, 3 million 31 thousand people belonged to this population group, 23,000 fewer than in the previous year, and their ratio to the total population was 30%. Among all people receiving pension or retirement provision, 57% were old-age pension recipients; their number was 1 million 731 thousand on 1 January 2009. Their number has been increasing again since 2004, despite the fact that the retirement age was raised and it is higher than ever before. Due to the change in regulation concerning pension determination having been in force since 2008, more people retired, so the number of those in early retirement grew. The second largest group is formed by disability pension recipients, their total number, including those under and over retirement age, was 779 thousand, nearly 16 thousand or 2% fewer than a year before. Both the number of disability pensioners under and above retirement age decreased, the latter to a somewhat larger extent. One of the main reasons for the fall was the decrease in the number of new disability pension establishments as a result of the restriction of the regulations.

The total amount spent on pensions and retirement provisions in 2008 was HUF 3 trillion 63 billion, at current prices 10.6% up on the year before. The total payments grew nearly 2.5-fold compared to 2000, while the number of recipients slightly decreased. In 2008, the proportion of pensions and retirement provisions to GDP increased further to 11.6% from 10.9% in the previous year. The average monthly amount of pensions was HUF 84,300, HUF 8,000 more than in 2007. The 10.5% rise of average pension and the consumer price growth of 6.9% calculated for pensioners meant that the real value of pensions, which was unchanged in 2007, was in 2008 3.4% higher than in the previous year. The relative position

of pensions, i.e. the ratio of average pension to net earnings has improved since 2003; in 2008 it was 69%, more than 10 percentage points higher than the value in 2003.

Among expenditure, the amount spent on family support and child care was in 2008 HUF 534 billion, 2% of the GDP. The largest proportion of this sum was spent on family allowance, and another significant part was spent on child care allowance and child care fee. HUF 366.8 billion, i.e. 1.4% of the GDP was paid for family allowance. On the average, 2 million 29 thousand children of 1 million 247 thousand families received monthly this kind of provision, slightly more than in the previous year. The average monthly amount of the allowance was HUF 24,500 per family, which was at current prices 6.5% up on the year before. Child care fee was claimed by 95 thousand persons, slightly more than in the previous year, and the number of child care allowance claimants increased as well, to 167 thousand. The number of claimants of child raising support, in which fewer families are concerned than in the former two provisions, decreased further to 41,600 in 2008. The per capita average monthly amount of child care fee was HUF 75,500, at current prices 8% more than in the year before, while the monthly amount of child care allowance rose by 9% on the average and amounted to HUF 31,400. Child raising support is due to families with 3 or more children for the youngest child if it is between 3 and 8 years of age. Its monthly amount is calculated similarly to child care allowance and equals the minimum of old-age pension. Last year it was HUF 28,500.

Financial assets of households

At year-end 2008, households had **gross financial assets** of HUF 25.6 trillion, 4% more than a year earlier. 2008 was the third subsequent years when the growth of gross financial assets of households decelerated. The increase of 14% in 2006 lagged behind the one year earlier by 2 percentage points, and in 2007 the deceleration was essentially the same. At the same time, in 2008, a more significant, 8 percentage point deceleration occurred in the rate of increase.

In 2008, there was a shift in the proportion of the two most important forms of saving, i.e. cash or deposits and shares or other equities. The stock of shares and equities, as the largest stock of financial instruments at the end of 2007, hardly changed, while that of **cash and deposit** assets grew by 12%. Thus, this latter group became the most important asset element of households. (Along with this, the tendency of several years, i.e. that the proportion of shares and other equities continuously grew, while that of cash and deposits fell, stopped.) More than three fourths of the most significant saving form amounting to nearly HUF 9.5 trillion was deposit assets, and the remaining part was cash stock, which increased from HUF 2.0 trillion to HUF 2.1 trillion in 2008. Within this group, the stock of other deposits containing time deposits and savings deposits, which can be changed for cash more slowly than transferable deposits, increased the most, by more than one fifth. On the other hand, transferable deposits decreased by 9%; their value was HUF 1.6 trillion at the end of the year. At the end of 2008, an overwhelming part, 85% of the deposit stock was forint deposits, and in case of cash, the proportion of national currency was even higher, 92%. The total value of foreign currency instruments possessed by households was HUF 1.4 trillion at the end of the year. Within this, foreign currency stock increasing by nearly four tenths in 2008 amounted to HUF 170 billion, foreign currency deposits to HUF 1.1 trillion and foreign currency securities almost to HUF 70 billion. The average annualized interest rate of time deposits in EUR exceeded 4% in the last months of the year, which was the highest interest rate level in the past years. In case of the forint, the average annualized interest rate of sight deposits and transferable deposits was 3.1%, while that of time deposits was 9.7% in December. In the second half of the year, the interest rate of time deposits increased considerably, by nearly 3 percentage points.

The value of the second most important saving form, **shares and other equities** was HUF 9.3 trillion at the end of December. Their value increase remained below HUF 100 billion as opposed to the period between 2005 and 2007, when the growth

was over HUF 1 trillion each year. The significant deceleration of the increase was due to quoted shares and mutual fund shares, the stock value of which diminished by nearly one fourth in 2008. The value decrease of mutual fund shares had a greater effect, as it meant almost HUF 620 billion as opposed to the HUF 80 billion in case of quoted shares. The unfavourably changing exchange rates decreased the stock value of both the mutual fund shares and the quoted shares by several hundred billion HUF, while the transactions affected only that of mutual fund shares. Thus, the decline of exchange rate occurred in parallel with higher buying interest, first of all due to the processes in the last quarter. The value of business shares of households amounting to HUF 6.2 trillion increased by more than 10% in 2008 similarly to the preceding years.

Insurance technical reserves increased by 22% on annual average in the period between 2005 and 2007, but in 2008 there was a fall: the stock of HUF 4.3 trillion at the end of the year was 6% down on a year before. Among the most important saving forms of this kind, the stock of both life insurance reserves and pension funds reserves rose significantly in the past years. However, in 2008, the value of both saving forms fell by 7%. As a result of revaluations, the stock of pension funds reserves declined by HUF 640 billion in 2008.

The value of **liabilities** rose by 27% last year, much more rapidly than in 2006-2007, when the growth rate was 20-20% each year. More than nine tenths of the stock of HUF 10.3 trillion at the end of the year was loans similarly to the preceding year.

The increase of **loan stock** amounting to HUF 9.6 trillion continued, and even strengthened: while in 2006 and 2007 growth rate was 20% and 22%, respectively, in 2008 it reached 30%. The increase could be explained solely by the spread of foreign currency loans, as the stock of forint loans showed rather a declining tendency: their value was HUF 3.1 trillion at the end of 2006 and HUF 3.0 trillion at the end of 2007 and 2008. The proportion of foreign currency loans approached 70% at the end of 2008, while three years earlier they accounted for only about

four tenths of the loan stock. At the end of 2008, more than seven tenths of the HUF 6.6 trillion foreign currency loan stock was CHF loans. It might show the narrowing possibilities of households to take up a loan in the last quarter of 2008, that the increase of foreign currency loan stock attributed to transactions was of significantly less value in the fourth quarter than in the average of the first three quarters (HUF 209 billion and HUF 361 billion, respectively). Moreover, all these happened in parallel with the fact that forint exchange rate was the weakest in the last quarter.

Among the different loan types, the value of **credit institutions' real estate loans** maturing almost exclusively in more than 5 years was more than HUF 3.9 trillion, one fourth more than a year earlier. This growth rate refers to the acceleration of increase, as the growth rate fluctuated between 16 and 20% in 2005-2007. The average annualized interest rate of forint housing loans was 11.7% in the last month of the year, while that of loans granted in euro was 6.8% and in case of loans taken up in Swiss francs it was 5.7%. The average credit cost indicator was also the highest in case of HUF loans (14.3%), while in case of euro or CHF loans with fluctuating interest rate or with interest rate fixed for one year at most, it was 9.6% and 7.2%, respectively in December 2008. For all of the three currencies, the indicators were higher than in December of former years.

The stock of **credit institutions' consumption and other credits** increased by 38% in 2008, their value reached HUF 3.8 trillion by the end of the year. The stock of this credit type grew by 35-40% in each of the last four years, thus the growth last year fits the trend in the preceding three years. Within this group, the value of consumption credits was HUF 3.1 trillion, two thirds of which were mortgage loans of unrestricted use, one fifth was personal loans, while one tenth was vehicle loans. In case of consumption credits, the rise in the proportion of long-term loans continued. At the end of 2008, the proportion of loans with a maturity over 5 years amounted namely already to 86%, 8 percentage points up on the year before and nearly 20 percentage points higher than at the end of 2006. Within consumption and other credits, the proportion of loans granted in foreign

currency was 73%, considerably higher than in former years and even higher than in case of real estate loans with a decreasing forint stock (60%).

The average annualized interest rate of consumption and other credits granted for households in HUF was 18.3% in December 2008, while that of loans taken up in euro was 8.1%. In the last month of the year, the average credit cost indicator of consumption credits excluding other credits was in the above order 28.7% and 12.1%, respectively. In case of Swiss franc based mortgage loans of unrestricted use, the average annualized interest rate was 6.7%, while the average credit cost indicator of this kind of loans was 7.8%.

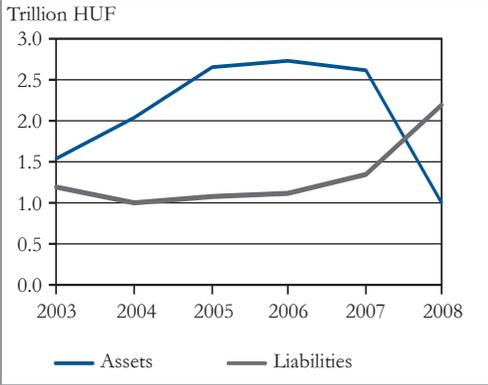
The proportion of loans provided by other financial intermediaries (financial and investing companies, leasing companies, investment funds and their managers) – besides an increasing value – kept decreasing and amounted to 18%, the same as a year earlier.

In 2008, **net financial assets** of households – in parallel with an inflation of 6.1% – fell by 7% and amounted to HUF 15.3 trillion. At the end of 2008, net assets corresponded to 58% of gross domestic product, which was 7 percentage points behind the rate a year ago, and which has been the lowest value since 2004. The growth rate of net assets calculated at current prices was 12-13% in 2005 and 2006, which diminished to 8% in 2007, while in 2008 a decrease of HUF 1.2 trillion followed. When assessing this last data, it has to be taken into consideration, that the revaluations in 2008 resulted in a decrease of HUF 1.4 trillion in net assets, as opposed to the three preceding years, when they resulted in an increase between HUF 0.6 and 0.9 trillion.

The change in both the assets and the liabilities of households played a role in the decrease of net financial assets in 2008. The value of assets grew namely only by HUF 1.0 trillion over the year which is not even four tenths of the growth experienced in the preceding years, while that of liabilities rose by HUF 2.2 trillion which is significantly higher than the increase of 2005-2007 (HUF 1.1–1.3 trillion).

The **deposit-loan ratio** – continuing the tendency of the preceding years – kept declining in 2008. The stock value of loans exceeded that of deposits at the end of the third quarter of 2006 for the first time.

Figure 9: Yearly changes in the nominal assets and liabilities of households



At the end of 2006, the value of deposits was only by 1% behind the value of loans; this difference was already 13% at the end of December 2007, while at the end of 2008, only slightly more than three fourths of loans were covered by deposits. The decrease was due to the sharp fall in the foreign currency deposit–foreign currency loan ratio, as in case of the foreign currency, loan stock was 5.9 times as much as deposit stock. At the same time, coverage of HUF loans improved, at the end of 2008 the value of deposits was 2.1 times as much as that of loans.

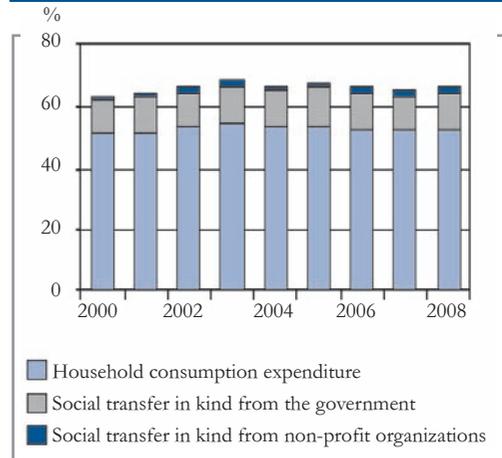
Consumption

Consumption of households is determined by their disposable income, and its dynamics depend on the changes in GDP, real incomes and real wages. In 2007–2008 the growth of GDP decelerated and reached only 1.7% over the two years. Since the last third of 2006, the rate of income outflow has decreased, and consumer price rise has accelerated. In 2007, real wages declined; in 2008, they hardly changed, their level was 4% lower than two years earlier. Final consumption of households decreased in 2007, then it stagnated, and during the two years, it was altogether by 2% behind that in 2006. According to volume data, level of household consumption expenditure remained essentially unchanged; social transfer in kind from the government fell by 10% in 2007, attributable to

the decrease of health expenditure. Last year, this low level was exceeded by 2.9%, thus it was by 7% behind the level two years earlier.

In 2008, final consumption of households was HUF 17 trillion 442 billion, 66% of the gross domestic product. This proportion grew by nearly 1 percentage point on the year before. Final consumption per capita was HUF 1 million 736 thousand in 2008. Among the three sources of consumption, the proportion of household consumption expenditure was 79.6%, that of social transfer in kind from the government was 18.1%, while social transfer in kind from non-profit organizations serving households accounted for 2.3%.

Figure 10: Final consumption of households and its components as a % of GDP



Detailed data on the structure of consumption are available on the year 2007. Among the three largest expenditure groups, the proportion of food and non-alcoholic beverages was 17.3% that of housing and household energy was 18.9%, while the share of transport expenditure, also containing vehicle purchases reached 15.6%. A striking feature of our consumption is that, differently from other countries, the proportion of alcoholic beverages and tobacco (9.5%) is much higher than that of clothing and footwear (3.5%). Compared to 2000, the most important change in the structure of consumption is, that within household expenditure, the proportion of

food fell by 1.6 percentage points, that of clothing and footwear decreased by 0.9 percentage point, while the share of alcoholic beverages and tobacco grew by 1.0, and that of transport by 0.8 percentage point.

Daily nutrition per capita calculated by the data of food balances decreased by 365 kilo joule in 2007 to 13,375 kilo joule, which still considerably exceeds the value recommended by nutrition science. Carbohydrate consumption, which was not too high anyway, fell to the recommended level, while protein and especially fat consumption still exceeded the optimal level; the latter one was nearly twice as high as the recommended value. Among foodstuffs, consumption of meat, vegetable and fruit, cereals and potato decreased considerably, that of dairy products and fish grew slightly. Consumption of coffee and tobacco did not change, while wine consumption fell considerably in favour of beer.

According to household statistics, the difference between per capita annual expenditure of the bottom and the top income decile was 3.8-fold in 2007. Among the main consumption groups, the gap was the largest in hotels and restaurants (9.7-fold). The difference was also much above the average in respect of culture, recreation (6.7-fold) and transport (5.7-fold). The gap between the two extreme income deciles was the smallest in food consumption (2.1-fold), but in case of beef and veal, fish and certain fruits, the difference was considerably higher. The difference between the total per capita consumption expenditure and, within that, food expenditure of childless households and households with children was also 1.4-fold in favour of households without children. This indicator changed only slightly in the past years.

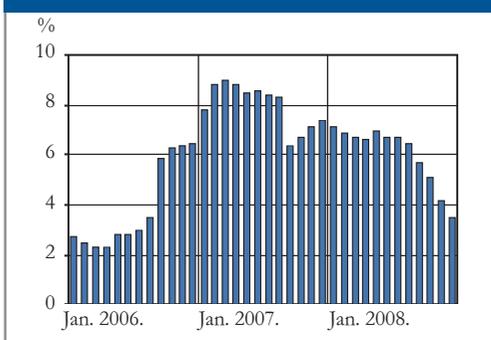
In the supply of consumer durables, the following phenomenon can be observed: the supply of more newly developed, up-to-date products (e.g. refrigerator with deep-freezer, personal computer, mobile phone, CD player) increased further, while the number of their predecessors (e.g. traditional refrigerators, deep-freezers, video-recorders, fixed-line phones) diminished. The number of passenger cars per hundred households grew by 2; it was 56 in 2007 (of which 53 own property). The number of own passenger cars per hundred households was

the lowest in Northern Hungary (49) and Northern Great Plain (50), while it was the highest in Western Transdanubia (63).

Consumer prices

In 2008, consumer prices rose by 6.1% compared to the previous year. The increase was smaller than a year earlier (8.0%), but exceeded the one two years before (3.9%).

Figure 11: Consumer price growth on the year before



The quite significant variability of the rate can be attributed to different factors affecting sometimes towards the same direction and sometimes against each other. Different measures of the economic policy, international economic effects and extreme weather all had influence on it.

In 2006, tax measures moderated on the whole the consumer price level, while they raised it in 2007 and left it essentially unchanged in 2008. In 2007, weather had a seriously negative effect on agricultural production (drought, frost damages in spring), while this effect could be considered advantageous on the whole in 2008. Foodstuff prices were in both years the important factors of the consumer price index which rose much more dynamically than the average. They became by 11.5% more expensive in 2007 and by 10.2% in the following year. Producer prices of agricultural products were high not only in 2007 but also in the QI-II of 2008, until the new crops became available. Besides, foodstuffs consumed by the population are rather industrial products than

agricultural ones. Domestic sales prices of food industry were 6.4% up in 2007 and rose by 11.6% in 2008. It must be mentioned, however, that among these products the proportion of imports grew. In 2007, food imports were only 1.7% more expensive than a year earlier, but in 2008 they became by 9.4% more expensive, i.e. food imports did not enhance the rise of consumer price level but did not essentially moderate it either.

Table 4: Consumer price changes on the year before

| (%) | | | |
|------------------------------|------------|------------|------------|
| Main expenditure group | 2006 | 2007 | 2008 |
| Food and non- | | | |
| alcoholic beverages | 7.7 | 11.5 | 10.2 |
| Alcoholic beverages, tobacco | 4.3 | 6.7 | 5.6 |
| Clothing and footwear | -0.7 | 1.0 | 0.0 |
| Consumer durables | -4.0 | -1.3 | -0.7 |
| Household energy | 6.4 | 24.6 | 12.7 |
| Other articles, fuels | 2.7 | 4.0 | 4.6 |
| Services | 4.1 | 7.4 | 5.0 |
| Total | 3.9 | 8.0 | 6.1 |

Prices of energy sources rose considerably in 2008 (in imports by 31%). Consumer prices of household energy increased by 25% in 2007 and by 13% in 2008. This latter one exceeded significantly the consumer price rise on the whole, so the tendency of prior years prevailed here.

It has been experienced for years too, that the price index of consumer durables has been falling

year by year, in which technical development has an essential role. Prices of clothing and footwear have hardly changed for many years.

As for many years before, consumer prices changed for pensioners and the strata with low incomes more unfavourably than the average in 2007 and in 2008, too, because in their consumption the proportion of articles which get more expensive at a faster rate is higher than the average. Consumer price index calculated for pensioners showed a growth of 10.7% in 2007 and 6.9% in 2008, while households with low income paid 9.4% and 7.1% more for the same selection of articles and services than a year before. On the contrary, households with high incomes experienced below-the-average price rise: 6.6% in 2007 and 5.0% in 2008.

In EU terms³, among the 27 member states, consumer price rise in Hungary was the second highest in 2007 after Latvia. In 2008, the rate of price rise moderated in our country while it accelerated in the others, and beside Latvia five more countries preceded us considering the rate of price rise. The average price rise of the EU was 2.3% in 2007 and 3.7% in the following year. The general acceleration of price rises in the EU last year could be attributed definitely to the world market energy prices, which rose till the middle of the year. In member states having accessed the EU in 2004 and 2007, except for Malta, Cyprus and Slovakia, the rate of price rise exceeded the EU average in 2007, while in 2008, it was the situation in all countries (Slovakia was the closest to the average with an annual price rise of 3.9%).

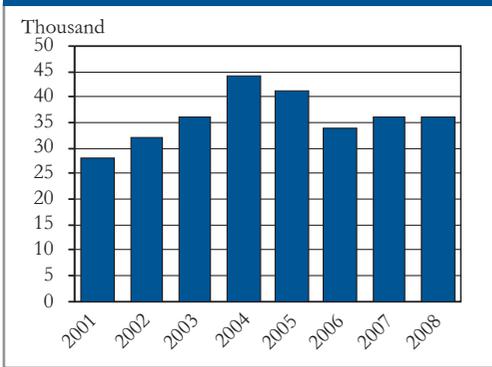
³ According to the harmonized index of consumer prices of EU.

Living conditions

Housing

Considering the number of **dwelling**s built, 2004 has been the most successful year since the turn of the millennium; nearly 44 thousand dwellings were built. It was followed by a two-year decrease, 34 thousand new dwellings were occupied in 2006, while in the last two years nearly the same number, 36 thousand new dwellings were completed.

Figure 12: Construction of dwellings



A gradual decrease was seen in the number and share of dwellings built by private individuals, but it was still over 52% in 2008. There was an increasing trend in the share of dwellings built by enterprises; it was 47% in 2008. Number of dwellings built by a local government was insignificant, the most, 1,400 units, were completed in 2003, accounting for 4% of the dwellings built at that time. Since then there has been an ongoing decrease. In 2008, 122 dwellings were completed by the local governments, accounting for 0.3% of the new dwellings.

In 2008, concerning new dwellings decreases of 13 and 11% were recorded in the numbers of one- and two-room dwellings respectively, while at the same time a 3% rise occurred considering three-room dwellings, while four- and more-room dwellings saw

an 8% increase on a year earlier. Three- and more-room dwellings accounted for 69% of all home completions.

A slightly decreasing trend was seen in the floor area of the dwellings built, however, in 2008, there was a nearly 3% increase, so an average size of 90 sq. m of floor area was reached.

No decrease has been observed in the large inequalities in building of dwellings. Over the last three years, building of dwellings per ten thousand inhabitants was well above the national average (by 63% on average) in Central Hungary and slightly above that (by 11%) in Western Transdanubia, while it was lower in the other regions. Northern Hungary had the largest lag behind the average (by 50%), where a total of 15.3 homes were built per ten thousand inhabitants in 2008, a fourth of the ratio of Central Hungary.

An ongoing decrease was seen in the number of those **dwelling**s that were lost due to conversions, demolitions and change of use. Nearly 5 thousand dwellings were lost in 2006, 4 thousand in 2007 and 3,735 in 2008. Amortization and home building played a prominent role in these losses. A decrease can be seen in case of both factors.

Difference between new dwellings and losses due to conversions, demolitions and change of use result in a growth in the number of dwellings. In 2008, there was an increase of 0.8%, just below 1% of the total. As a result of this, at the end of 2008, the **number of dwelling**s amounted to 4 million 303 thousand. Three- and more-room homes accounted for 48%, two-room homes for 40%, while one-room homes for 12% of the total. The population per a hundred homes decreased from 251 to 233 from 2001 to the end of 2008. For years, there have been more rooms than people; there were 90 people per 100 rooms at the end of last year.

On 31 December 2008, **home loans** accounted for a total of HUF 3 trillion 875 billion, 25% more than a year earlier. The increase of HUF 766 billion

resulted from an increase of 907 billion of foreign currency home loans and a decrease of 140 billion of HUF loans.

In 2008, 145,500 home loans were approved, nearly 15 thousand more than a year earlier. Within this there was a decrease of 4 thousand in the number of approved, government subsidized home loans and an increase of over 17 thousand of foreign currency home loans. Last year, loans amounted to an average of HUF 5.7 million, a 16% increase on 2007. In 2008, the average loan period was 15.1 years, 4 months more than a year earlier.

Health

The fluctuating, but basically falling trend of deaths since 1993 shows improving life prospects, which are expressed in the increase of life expectancy, as well. Males born in 2007 can expect to live 69.2 while females 77.3 years. Since the turn of the millennium, average life expectancy at birth has become 2 years longer for men and 1 and three fourths years for women. However, life expectancy of Hungarian males was by 6 years lower than that of an average EU citizen and this figure was nearly 4 years in case of females.

In Hungary, half of the deaths are caused at present by the diseases of the circulatory system and one fourth of them result from neoplasms. In the last three years the number of neoplasm deaths increased slightly while that of deaths caused by diseases of the circulatory system diminished somewhat. The former one more afflicts men, while the latter one more hits women. In case of neoplasms, the number of deaths per hundred thousand persons of the same gender was 30% lower for women than for men, while in case of diseases of the circulatory system, this rate was 6% higher for women.

Calculated for one thousand inhabitants, most people die from some kind of **malignant neoplasms** in Europe, twice as many as the average in the world, and in Europe this rate is the highest in Hungary. Population under 20 years of age is mainly attacked by malignant brain tumours and leukaemia. Already at

this age, boys are more at risk than girls. Over the age of 20, malignant trachea, bronchial and lung tumours are the leading cause of cancer deaths in case of men and breast cancer in case of women. In deaths caused by the former disease, we are the first not only among EU member states but in the whole of Europe. In deaths resulting from breast cancer, we are the fifth in the rank after developed Western European countries. In Europe the most people die from the disorders of the circulatory system in the member states of the former Soviet Union and in Serbia, the frequency of this kind of death is twice, sometimes three times as high as the EU average. In five countries of the EU – Bulgaria, Romania, Latvia, Lithuania and Slovakia – do some kinds of circulatory diseases cause more deaths than in Hungary. In Hungary, half of the deaths were caused by coronary problems, 22% by cerebral diseases and 9% by high blood pressure related diseases.

In compliance with death statistics, the data of patients registered at **General Practitioners' service** also confirm that diseases of the circulatory system are widespread. According to these data, nearly one third of the population in Hungary suffers from high blood pressure and this ratio grew by more than 6 percentage points after 2005. The proportion of patients treated for coronary diseases is over 12%,

Figure 13: Number of reported malignant neoplasm

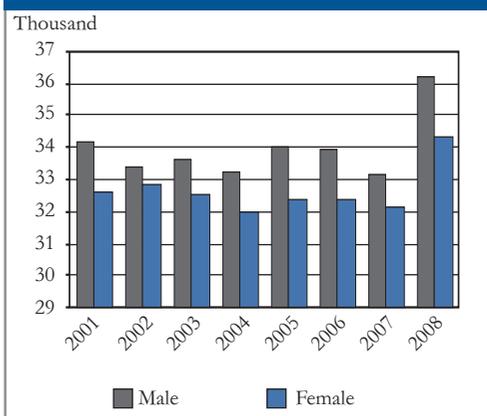
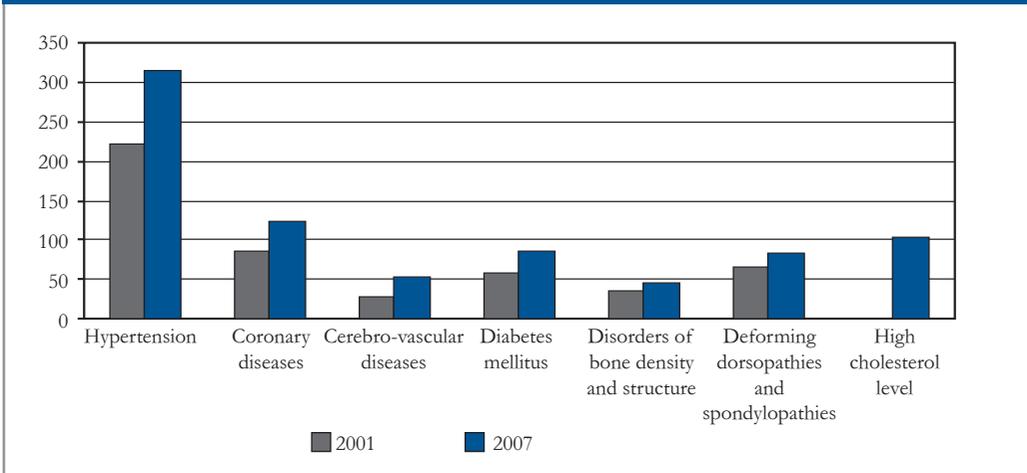


Figure 14: Diseases of people over 18 years of age registered at GP-s per thousand inhabitants



that of those having cholesterol problems is 10%, and more than 5% are treated for cerebrovascular diseases. The proportion of patients visiting physicians because of the diseases of the musculoskeletal system and connective tissues also exceeds 10%, while that of people treated for diabetes mellitus approaches this value. The prevalence of the abovementioned diseases is increasing continuously.

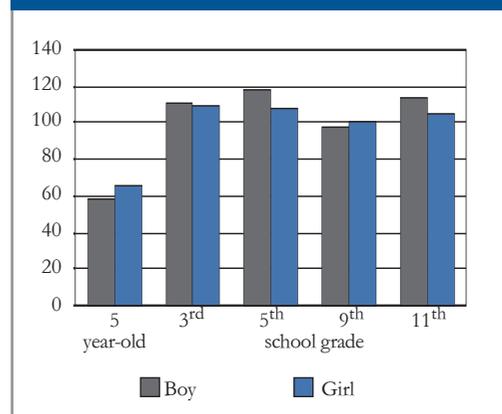
Doctors screen yearly more than 90% of children enrolled in nurseries and schools. The most frequent alterations are eye refraction and locomotion problems. Out of one thousand examined children 62 have posture problems already at nursery age and 21 of them have scoliosis. Years after, the situation is worse, as out of one thousand children of the ninth school grade 176 have poor posture and the same number of them is diagnosed also with scoliosis. These locomotion problems are more frequent among boys in lower school grades, while they occur more often among girls in upper school grades.

Overweight is present in at least one tenth of the child population from the third school grade. Both locomotor alterations and overweight refer to a lifestyle lacking exercise among youth. Allergy and asthma mostly affect children of ninth school grade, out of

one thousand children of this age 30 suffer from asthma and more than twice as many are allergic.

Family paediatricians have to treat infants under 1 year of age most often for anaemia and for problems connected to premature birth. Anaemia needs less and less treatment at later ages, and instead, asthma, posture problems and scoliosis become the most frequent reasons for taking the child to the family paediatrician.

Figure 15 : Number of overweight children per thousand examined children, 2007



In 2007, patients visited **outpatient services** in 68 million cases countrywide; it meant that the number of visits per inhabitant was 6–7 on the average. 62% of the visits happened at some kind of specialist consultations, 26% in laboratory or diagnostic examinations. Nearly half of the 314 million interventions were performed at the latter type of consultations.

Table 5: Outpatient services performing the most interventions, 2007

| Main fields of specialization | Number of visits at consultations | Number of interventions | Number of performed physicians' working hours |
|-------------------------------|-----------------------------------|-------------------------|---|
| | per hundred inhabitants | | |
| Laboratory | 111.1 | 1,241.4 | 7.0 |
| Physiotherapy | 60.6 | 272.9 | 0.8 |
| Dentistry | 74.6 | 256.3 | 47.7 |
| Ophthalmology | 22.6 | 133.4 | 7.1 |
| Rheumatology | 32.5 | 123.0 | 6.9 |
| Internal medicine | 36.3 | 98.0 | 13.4 |
| Oto-rhinolaryngology | 19.6 | 82.4 | 5.5 |
| Neurology | 11.9 | 80.1 | 5.2 |
| Neonatology and paediatrics | 16.2 | 77.2 | 7.6 |
| Surgery | 23.5 | 73.5 | 7.1 |

Between 2005 and 2007, the number of **hospital beds** decreased by nearly one tenth, while that of discharged patients fell by 13%. In 2007, there were 72.5 thousand hospital beds. In 2005 three fourths of the nearly 80 thousand approved hospital beds were used in active wards providing a relatively short period of care, but this proportion decreased to 62% by now. The number of chronic beds grew by 39% over the last three years; in 2007 there were almost 28 thousand such hospital beds: 36% of them were operated in rehabilitation, 27% in after-care, 22% in psychiatric wards, 10% in wards providing long-term care and 5% in pulmonology wards.

The largest **expenditure** item (44%) of the health insurance fund was paid for curative-preventive care. In 2007, the largest proportion (56%) of HUF 719 billion spent on this purpose was available for inpatient services, the share of outpatient services was 15%, while that of general practitioner services accounted for 10%. Out of the three most important items, real costs of outpatient services have risen the most, by 35% since 2000, while those of general practitioner services have grown by 25% and inpatient services by 14%.

On real value, the costs of **home care services and MCH nurses**, having a relatively small weight, have increased to the greatest extent (by 61% and

Table 6: Financing of curative-preventive provisions by tasks

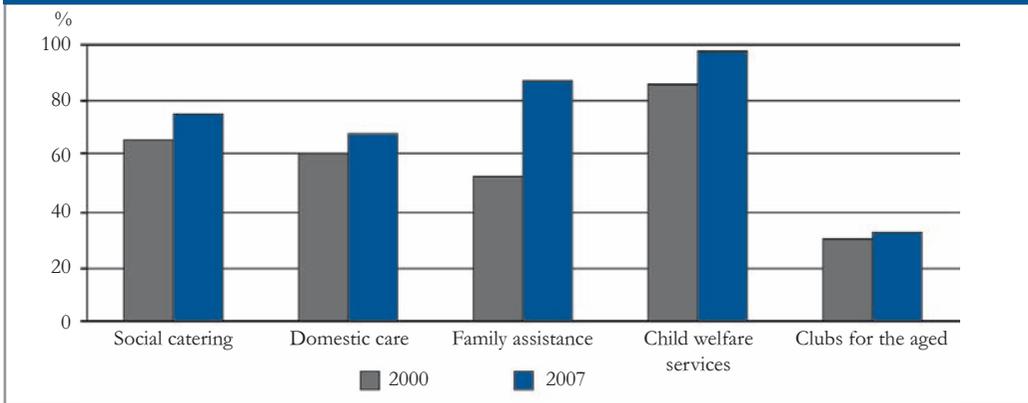
| Task | Amount spent on provisions in 2000 | | Amount spent on provisions in 2007 | | Change in real value between 2000 and 2007, % |
|--------------------------------|------------------------------------|-----------------|------------------------------------|-----------------|---|
| | in billion HUF | distribution, % | in billion HUF | distribution, % | |
| General Practitioners' service | 36.6 | 9.7 | 72.4 | 10.1 | +25 |
| MCH service | 8.3 | 2.2 | 18.5 | 2.6 | +41 |
| Dental care | 10.4 | 2.8 | 22.5 | 3.1 | +37 |
| Dispensary care | 8.2 | 2.2 | 5.9 | 0.8 | -54 |
| Patient transport | 3.7 | 1.0 | 6.3 | 0.9 | +8 |
| Ambulance service | .. | .. | 20.9 | 2.9 | .. |
| Outpatient service | 51.6 | 13.7 | 110.3 | 15.3 | +35 |
| CT, MRI | 7.1 | 1.9 | 12.1 | 1.7 | +8 |
| Kidney dialysis | 10.1 | 2.7 | 20.6 | 2.9 | +29 |
| Home special nursing | 1.3 | 0.3 | 3.3 | 0.5 | +61 |
| Inpatient service | 222.8 | 59.2 | 401.7 | 55.9 | +14 |
| Others | 16.0 | 4.3 | 24.2 | 3.4 | -4 |
| Total | 376.1 | 100.0 | 718.7 | 100.0 | +21 |

41%, respectively). In parallel, the number of visits in the framework of special home care service and special therapy grew by 45% and the number of days spent on hospice care rose by 40% during the last three years. The number of MCH nurse jobs was 2% more than in 2000. During the same period, the number of visits to pregnant women fell by 16%, but one and a half times more women attended consultations, and the number of visiting infants at home increased somewhat as well.

Social services

There is no uniform social policy in the European Union, but the scale of values of the EU, i.e. principle of social solidarity, fight against poverty and exclusion, equal opportunities, gender equality and the existence of effective social protection influence the forming social system of each member state. In Hungary, this effect can be seen mostly in the development of a more familiar and person-oriented institution and service system.

Figure 16: Proportion of settlements providing basic social services



In 2007 36 thousand **physician jobs** were filled in the country, 4% more than in 2005. 40% of physicians were self-employed. The proportion of self-employed physicians is the highest among General Practitioners and dentists, 84% and 66%, respectively, but there are relatively many self-employed physicians in occupational health service (59%), outpatient service (42%) and in ambulance service (34%) as well. Beside filled physician jobs, only the number of pharmacist jobs grew (by one fifth), while in other health occupations fewer people were employed. The number of jobs filled by auxiliary manual workers decreased the most (by 19%). In 2007, altogether 175 thousand jobs were filled in health care, 4% more than two years earlier.

In terms of the law, **basic social services** must be available in each settlement, which endeavour could be approached so far mostly in the field of basic child welfare services and family assistance.

In meeting their obligation by law, the proportion of institutions maintained by local governments was over 90%. Small local governments can often fulfil this task only with co-operation in the form of associations. Non-profit organizations provide help for 5–6% of those who need child welfare and family assistance services, 3–3% of people receiving domestic care or visiting clubs for the aged and 2% of recipients of social catering. Enterprises provide for 6% of this latter group, while 2% of those visiting clubs for the aged choose institutions maintained by the church.

In 2008, 108 thousand people received social catering, and 92% of them paid for it. Out of 1,000 people over 60 years of age 48 received this kind of provision. Since the turn of the millennium, this ratio has hardly changed. 37% of people receiving warm meal once a day lived in Northern Hungary or Northern Great Plain.

Domestic care is provided for old, ill or disabled people who are able to care for themselves but need assistance in it. In 2008, 48 thousand people got this kind of service and 58% of them paid for it. Out of the 6,800 nurses providing care for them, 4,600 were qualified. One nurse helped 7 patients on the average.

The number of those who, instead of or beside social catering and simple domestic care, get some kind of special community services is several ten thousands. (One person may get different provisions at the same time.) Among them, 17 thousand people had emergency call device, which is allowed to be used in crisis situations. 5,500 psychiatric patients and 7,000 addicts got special care in in their homes. 19 thousand disabled people who need assistance at home and also in access to public services outside home, receive supportive services. Nearly 4 thousand disabled people who are partly or fully unable to care for themselves get assistance in day care centres. Street social workers follow the situation and living conditions of 11 thousand homeless people and initiate their care if necessary. The daily average turnover of the 104 day centres was more than 8.5 thousand, while that of the 39 public kitchens amounted to nearly 4 thousand people.

Among day services, the demand is the highest for the clubs for the aged, which are available only at 32% of the settlements. In 2008, 38 thousand people spent their daytime in such clubs, where they got meals and found company. (Their number has hardly changed for years.)

In 2008, 707 village and farm caretakers were employed, mainly by local governments. Four fifths of village caretakers worked in Western and Southern Transdanubia and in Northern Hungary, while nearly half of farm caretakers were employed in Southern Great Plain. These proportions can be explained by the dispersed settlement pattern of hamlets in Transdanubia and Northern Hungary and by the

scattered farms which are first of all characteristic of the Great Plain.

Among **basic child welfare services**, the number of infant nursery places fell by half in some years after the transition. Though the capacity has increased by 5% since the nadir in 2003, the number of enrolled children has grown by 9%. In 2007, 32 thousand children were enrolled for the nearly 25 thousand places. The daily average number of children cared was 22.5 thousand, which is 90% of the available places.

Child welfare services were operated in 97% of the settlements, and in 2008, more than 750 thousand problems were handled in the course of 205 thousand contacts. One fourth of them were financial, one fifth were child raising problems, while 16% were difficulties connected to lifestyle. About 124 thousand children appeared at these services, 2,000 fewer than a year earlier.

Among the more than half million people contacting family assistance services, 7% were under the age of 18, but the activities of these services affect much more minors through their families.

The **system of specialized social services** changed significantly in the last decade both in the field of adult and child care. More familiar institutions of smaller capacity were established on the one hand, and both temporary and long-term placement now is possible there on the other hand.

Figure 17: Number of minors under child protection

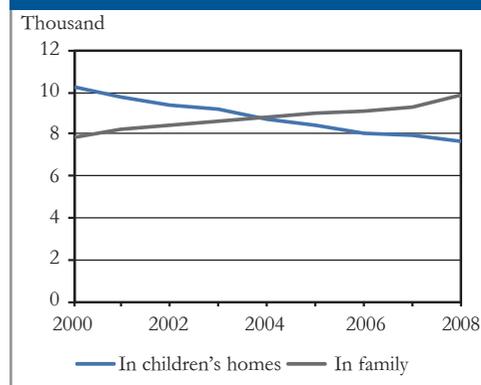


Table 7: Main supports granted by local governments, 2007

| Regular support | Amount used, million HUF | Average monthly number of support recipients, thousand persons | Average monthly amount per recipient, HUF |
|--|--------------------------|--|---|
| Regular social support | 60,057 | 194.7 | 25,703 |
| Old-age allowance | 1,947 | 6.3 | 25,638 |
| Regular child protection benefit | 4,897 | 490.0 | 4,997 |
| Occasional support | Amount used, million HUF | Number of support cases, thousand | Average amount per cases, HUF |
| Home maintenance support | 17,810 | 3,048 | 5,843 |
| Extraordinary child protection benefit | 2,309 | 461 | 5,014 |
| Emergency support | 4,673 | 761 | 6,140 |
| Funeral support | 1,128 | 55 | 20,717 |

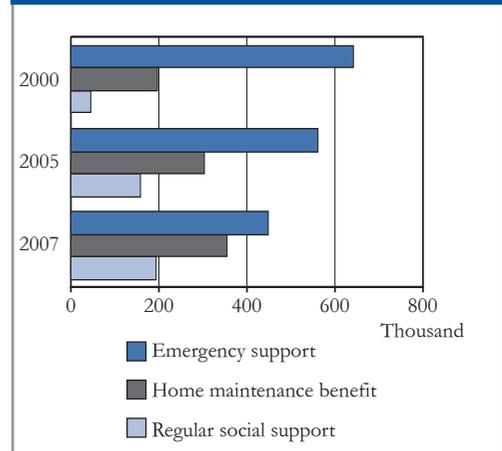
The basic pillars of child protection are child welfare services (service providing aspect) and guardianship offices (authority, decision-making right). In 2008, municipality clerks registered 198 thousand endangered minors. Beyond that, 21 thousand minors were under the procedure of being taken into child protection. The tendency is that the number of those who are under the procedure of being taken into child protection has been rising for years: in 2000, 5.6 per thousand minors were paid such special attention, while this number was already 11.4 in 2008. Last year, 17,500 children lived in children’s homes, with foster parents or other homes providing nursing care, i.e. under child protection. Now more children are cared in families than are living in children’s homes.

In 2008, more than 84 thousand people lived in long-term and short-term residential institutions of adults; 13% of them lived there temporarily, for 1 year at most. 60% of the patients lived in homes for the aged, one fifth in homes for disabled people, one tenth in homes for psychiatric patients, 3% in homes for addicts and 9% in homeless shelters. Occupancy rate was over 90% almost in all types of these homes, and it was the highest in the institutions for psychiatric patients (99.0%) and for disabled people (96.3%). More than two thirds of the institutions were maintained by local governments.

Local governments spend more on regular social allowances than on occasional ones. The majority of this amount (more than HUF 60 billion) was paid

monthly as regular social support to 195 thousand people in need. This number has grown more than four-fold since the turn of the millennium. The number of those receiving home maintenance benefit has nearly doubled as well, while that of emergency support recipients fell by 30%.

Figure 18: Number of people receiving social support



In 2007, 52 thousand nurses worked in the care of people needing long-term care, and, on the average, HUF 26 thousand nursing fee per person was paid for it monthly. In 2007, there were 19 thousand people so seriously disabled that they were eligible in the country

for support for car purchase and transformation, and nearly 202 thousand disabled people got transport-related support in the value of almost HUF 1.9 billion. 399 thousand people possessed public medical treatment card. 109 thousand seriously handicapped people, who were unable to live an independent life, received disability support; 45% of them got

65%, while the others 80% of the minimum old-age pension. Cash allowances were paid to 19 thousand people who were not eligible for pension due to their age or service time, and were excluded from the unemployment benefit scheme as well. However, the number of claims was 11 thousand more.

Legal and public security*

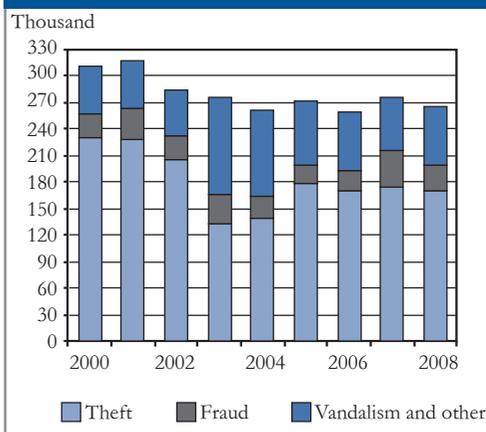
In 2007, the number of **discovered, publicly indicted crimes** hardly changed. In 2008, there was a significant decrease compared to a year earlier. 408,400 crime and offence cases were closed. The number of infringements decreased by 18 and half thousand, 4.3%, within this there were decreases of 5.8% and 3.3% in the numbers of crimes and offences, respectively. The share of property crimes remained unchanged, accounted for two thirds of the total.

Last year there were significant changes in the **structure of crimes**. A sharp increase in the number of crimes against the person, crimes against the state, law enforcement and ethical public life as well as business crimes was observed. The other main groups of crimes showed smaller or larger decreases. Numerically, the sharpest decrease of over 10 thousand, 4% was seen in the number of property crimes as a result of a fall in thefts and frauds, which account for a large proportion. Along with this, a considerable decrease was seen in the number of traffic crimes and crimes against the public order in conjunction with a significant reduction (totalling over 9 thousand) in the number of accidents caused by drink-driving as well as in that of forgery. Crimes against marriage, family, youth and sexual morality, which accounts for a small proportion, was halved in number to seven and half thousand, as a result of a reduction in the number of porn films made and abuses with these recordings. 22% more crimes were committed against persons and there was a 13% year-on-year increase in the number of business crimes. An increase in the number of crimes in these two main groups may be in connection with intentional assaults, as well as with accounting frauds, tax frauds and credit card frauds.

Of the crimes exerting the most direct influence on the sense of safety of the population, there was an increase in the number of intentional assaults (14.4%), of burglary to dwellings (10.5%) and pick-pocketing (10.3%), while there was a reduction in

that of car thefts (7.3%) as well as of homicides (3.3%). A decreasing, although uneven long-term trend was seen in this latter. There were more than 200 homicides at the beginning of this decade, 152 in 2007, last year this decreased by 5 cases to 147. No change was observed in the number of robberies. There was an increase in the number of burglaries, which accounted for a large proportion (of nearly 11%) of property crimes. Last year, 43 thousand such offences or crimes were committed, 5.3% more than in 2007. In addition to this, there was a 12% increase in the number of copyright infringements, amounting to 33 and half thousand such cases last year, while the number of frauds decreased from 41 thousand to 30 thousand. 5,458 drug abuses became known, nearly 17% more than in 2007, but 28% less than the peak in 2005. Of the types of crimes that are in the focus of attention, 3 terror attacks were committed in 2008 (there was a total of 4 attacks a year earlier), totalitarian symbols were used in 207 cases, more than a three-fold increase on a year earlier. There was also

Figure 19: Number of crimes against property



* Source of data: Ministry of Justice and Law Enforcement and the Prosecution Service.

an increase in the number of assaults against officials (within this in that of crimes against the police, too), while no change was observed in the share of threatening with crime causing public danger.

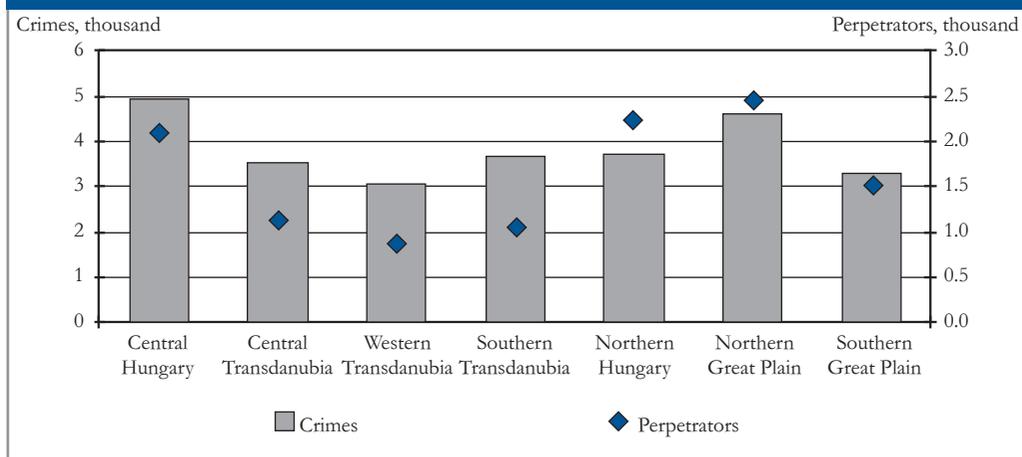
The share of detected crimes decreased from 59.1% a year earlier to 58.5%. Of the **perpetrators**, 116,600 became known, 0.4% more than in 2007. With a 1.4% increase the number of dispensable minors amounted to 3,434. 9.8% of perpetrators were juveniles, a nearly 5% increase in number over a year. There was an 8.5% decrease in the number of foreigners, accounting for 3.5% of perpetrators. On 2007, a 5.4% increase was recorded in the number of first-time offenders, they accounted for a proportion of nearly 70%. Against this, a nearly 10% decrease was recorded in the number of repeat offenders along with a sharper decrease of 14% in case of multiple repeat offenders. A great majority, 84% of perpetrators are men, practically the same as a year earlier. Alcohol or drugs played a role in the offences of the one fifth of perpetrators. The share of those under the effect of alcohol had a larger proportion (85%), their number decreased by 4.5%, while over a year there was a significant, 32% increase in the number of perpetrators under the effect of drugs.

In 2008, there were 211,500 crime **victims**, an 8.5% decrease on a year earlier. Within this, a significant, 29% increase was recorded in the number of child victims along with a 9% decrease in that of young victims. Of the victims, 7,390 were foreigners, a 2% increase on 2007. 41% of victims became a victim in a public area, a nearly 2% decrease on a year earlier. A significant, 13% increase was recorded in the number of those who became a victim of a crime of a violent, hooligan character.

Since 2004, there has been an ongoing decrease in the number of **defendants** in criminal lawsuits with a definitive judgement, within this a 3.5% reduction was recorded in 2008, at that time their number was 84,500. Of them, 42% was sentenced to pay a fine, 31% to confinement, 20% to other penalty and measures, 7% to work for public interest. Two thirds of the confinement sentences were suspended. 11% of all convicts, 8,972 people had a sentence of enforceable imprisonment. 7% of those with definite judgements are juveniles.

In the prior years, an ongoing decrease was seen in the number of **those who were imprisoned**; however, in 2008 a 2.6% year-on-year increase was recorded. Convicts accounted for 69%, persons under

Figure 20: Number of discovered crimes and perpetrators per hundred thousand inhabitants, 2008



remand for 30% of those who were imprisoned, while the remaining ones were persons sentenced to forced therapy and in 2008, similarly to the prior years, none was sent to prison temporarily.

Characteristic **regional** differences were seen in crimes. One of the most important characteristics is that in 2008 the region of Central Hungary accounted for a significant proportion, 35% of crimes and the ratio of crimes to population was also the highest here. Similarly to the national processes a decrease was observed in the number of crimes at the territorial level, too. Except for the Northern Great Plain, all regions showed smaller or larger decreases in this

indicator. (Last year, nearly 70 thousand crimes were committed in the Northern Great Plain, 19% more than in 2007.) The central region accounted for 24% of perpetrators, the Northern Great Plain for 19%, other regions accounted for 8–15%. Northern Great Plain accounted for 22% of juvenile perpetrators, but Northern Hungary (19%) and Central Hungary (18%) had a significant share, too. Over a year a reduction was recorded in the number of young perpetrators in Western Transdanubia, no change was observed in Southern Transdanubia and in Northern Hungary, while increases of 7–13% occurred in the other regions.

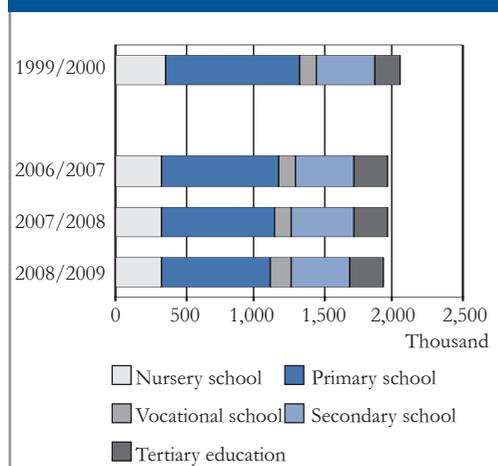
Education, science, culture

School attainment, education, training

In 2008, 19% of the population aged 25–64 years had a college or university degree in Hungary. 30% had a GCSE as the highest educational qualification; a further 30% had a vocational qualification, while 20% only had a finished or unfinished elementary education.

A total of 2 million 150 thousand pupils and students were recorded in the school year 2008/2009, 2.1% fewer than a year earlier and 4.2% fewer than in school year 2006/2007. For the most part primary schools as well as the number of tertiary, non full-time students were affected by this decrease.

Figure 21: Number of participants in full-time courses of school education



In the school year 2008–2009, 326 thousand children, 85% of the nursery-aged children were in nursery education, nearly 2 thousand more than a year earlier. Of the nursery-school children, 4,900 needed special education, in line with education policy objectives, an ever increasing proportion, 71% of them are educated in an integrated way to facilitate school progress for children. The number of operational sites

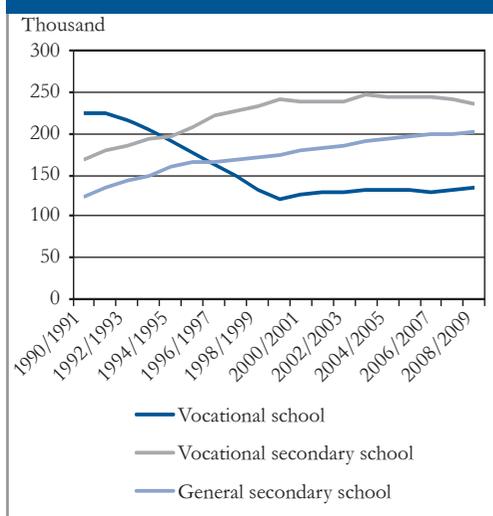
decreased by 31 to 4,355; here nearly 30 thousand nursery teachers worked.

As a result of a decrease in the number of the affected age-group, 789 thousand children studied full-time in primary schools, 2.5% fewer than a year earlier. The number of those studying in the classes of primary schools for children with special educational needs as well as that of those taking part in integrated education decreased by nearly 5 thousand to 53 thousand persons, 57% of them study in integrated education. 43% of pupils – a 1.4 percentage point increase on a year earlier – took part in afternoon school services. 65% of them took advantage of school meal services, a 1.1 percentage point increase in proportion compared to a year earlier. Only a small decrease was seen in the number of students in the secondary general schools offering a 6 or an 8-year education, 27 thousand of them studied in classes 5–8; no change was observed in number. In 2008, 110 thousand eighth-form pupils graduated in full-time education, 2,700 fewer than in 2007 and nearly all of them continued to study in some secondary educational institution. Number of primary school operational sites was 3,363; 55 fewer than a year before; out of dismantled schools 51 were in villages. Nearly 76 thousand teachers worked in schools, a 3.2% decrease in number compared to a year earlier. Out of ten teachers nine were women.

574 thousand pupils were in the full-time courses of the secondary education, 1,200 fewer than in the previous school year. Within this, 134 thousand pupils studied in vocational education, an increase of 700 compared to the school year 2007/2008, and 440 thousand in secondary school education, 2 thousand fewer than last year. Recently only small changes have been observed in the proportion of those who attended certain types of schools. From the beginning of the 1990s, in the secondary education more and more people opted for secondary schools providing GCSE courses, however, this trend was reversed in the school year 1999/2000. In the last two years there was a slight increase in the proportion of those enrolled in vocational courses, which was more than 23% in

school year 2008/2009. The proportion of vocational secondary school students slightly decreased to 41% at present. A slight increase was observed in the proportion of those studying in a secondary general school with an approximate 36% share in the school year 2008/2009. 10 thousand and 38 thousand teachers worked in vocational and secondary schools, respectively, 1.9 and 2.5% fewer than a year earlier.

Figure 22: Number of students in full-time courses of secondary education



The student dropout rate showing what proportion the so-called early school leavers have – out of the age-group of 18–24 years those who have at least primary education and did not take part in full-time school education or in adult training – was 10.9% in 2007, 1.5 percentage point less than a year earlier. It was higher in case of men (12.5%) than in case of women (9.3%).

The number of those participating in higher education has been increasing for the third year, a 4.2% decrease was recorded in school year 2008/2009 compared to the previous school year. The present headcount of 381 thousand people is 43 thousand fewer than in 2005/2006. A slowdown was seen in the increase of the number of full-time students in the total headcount of students up to the school year 2007/2008, while it was practically the same this school year as a year earlier. There was an increase in the number of those participating in evening, weekend and distance courses up to 2004, since then a reduction has been seen. This school year 138 thousand students studied in part-time courses, an 11% decrease on a year earlier.

At present, higher education is characterized by a transition from an old system to a new one. In the school year 2008/2009 a combined total of 251 thousand people attended courses that were in line with the earlier college education and the bachelor courses (BA, BSc) which were aligned with the new multi-stage system, 2% fewer than in the previous school year. A combined total of nearly 90 thousand people attended

Table 8: Proportion of students by school operator in full-time education, 2008/2009

| Place of operation | Proportion of students by school operator in full-time education, 2008/2009 (%) | | | | | |
|-----------------------------|---|-------------------|-----------------|----------------------|--------------------------------|-------|
| | Local government | County government | Budgetary organ | Church, denomination | Foundation, private individual | Other |
| Nursery school | 93.2 | 0.3 | 0.6 | 3.3 | 1.9 | 0.6 |
| Primary school | 89.4 | 1.5 | 1.4 | 5.9 | 1.3 | 0.5 |
| Vocational school | 55.7 | 27.0 | 1.9 | 3.1 | 8.2 | 4.0 |
| Special vocational school | 42.2 | 51.8 | – | 1.7 | 4.3 | 0.1 |
| Secondary general school | 57.7 | 15.1 | 3.7 | 17.2 | 5.0 | 1.3 |
| Secondary vocational school | 52.1 | 29.7 | 3.3 | 2.0 | 9.4 | 3.4 |
| Tertiary education | – | – | 87.9 | 5.6 | 6.5 | – |

“old-type” university and master courses (MA, MSc) as well as “undivided” courses, 87% of the headcount a year earlier. In this latter case the decrease results from the transition to the Bologna system: students were phased out from the significant part of the previous university courses, but the new master courses were hardly phased in. In the school year 2008/2009, 6.911 people attended PhD courses, 3.4% fewer than in the previous school year. An ongoing increase was seen in the number of those studying in higher vocational programmes, nearly 16 thousand students attended these courses, which is 126% of that a year earlier.

There is often no correlation between the special field of interest of the potential students and the labour market demands. The Hungarian educational policy, by setting quotas, aims to facilitate to establish a desirable educational structure. At higher education institutions admission rates, as a percentage of first-place applicants, show quite a varied picture by field of education. In the field of science education the number of admission exceeds that of the first-place applicants with a rate of 124%, reached 99% in case of technical sciences, while at the same time 28% of all applicants were admitted to the educational field of art. 70% of applicants were admitted to the still popular educational field of law.

As a result of a new merge in higher education, the number of institutions decreased by one, so at present there are 70 colleges and universities. The number of college and university lecturers is over 22 thousand, nearly the same as a year earlier. There was an ongoing increase in number of students per lecturers over the school years between 2000/2001 and 2006/2007 and a decrease in the school year 2008/2009.

The decrease in demand that was seen in the non-full-time education during the last years may be in connection with the end of that surplus demand, which was generated in the 1990s by the older age-groups who had been left out due to the previously closed higher education system, since following the change of regime the admission into the higher education institutions became easier.

In an international context, the mobility of Hungarian students is low. In 2006, 1.7% of all students studied in other EU countries; the average of the EU-27 was 2.7%. The number of foreign students studying in Hungary was also below the EU average, foreigners accounted for 2.1% of all students who study in Hungary; while this was 3% on average in the EU-27 member states.

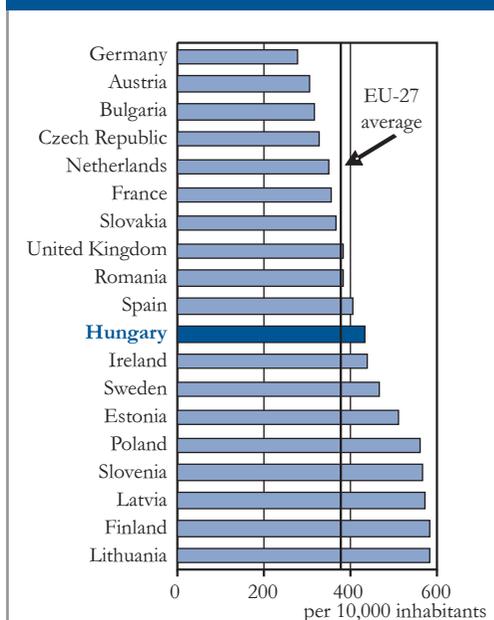
In 2007, educational expenditures of the general government amounted to HUF 1,228 billion, at current prices 1% more than a year earlier. The ratio of domestic educational expenditures to GDP can be compared with international data through data from 2005. According to this, while in Hungary educational expenditures accounted for 5.5% of GDP, within this those spent on the higher education for 1%, in the EU-27 member states – according to the estimate of Eurostat – on average, 5% was spent on education, within this 1.2% on higher education. Higher education expenditures accounted for the highest proportion in Denmark and Finland (over 2%)

In the school year 2008/2009, share of students studying in state-funded education was 76% of all full-time students, practically no change was observed compared to a year earlier. In the school year 2007/2008, a total of 19 thousand new borrowers entered into the student loan scheme, a 20% decrease

Table 9: Distribution of students participating in college and university (bachelor and master) level education

| (%) | | |
|-------------------------------|--------------|--------------|
| Field of education | 2001/2002 | 2008/2009 |
| Teacher training, pedagogy | 15.1 | 8.1 |
| Arts | 1.5 | 2.1 |
| Humanities | 7.4 | 8.3 |
| Social sciences | 9.5 | 8.8 |
| Management and administration | 21.4 | 25.5 |
| Law | 5.6 | 4.9 |
| Sciences | 1.7 | 3.4 |
| Informatics | 3.5 | 3.7 |
| Technical sciences | 13.9 | 14.7 |
| Agriculture | 3.6 | 2.6 |
| Health, social services | 8.1 | 9.3 |
| Services | 8.7 | 8.5 |
| Total | 100.0 | 100.0 |

Figure 23: Number of students in tertiary education, 2006



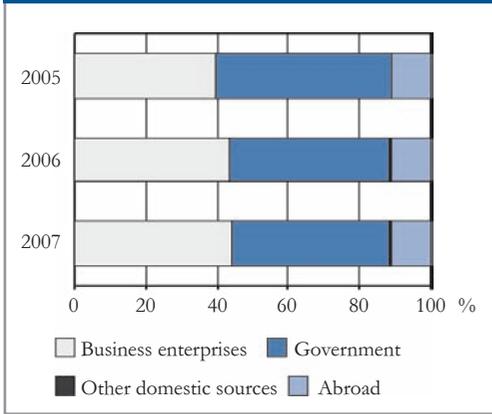
on a year earlier, although there was only a slight decrease in the number of those who were admitted (in full-time education by 3.4%, altogether by 0.6%). Since 2001, when the student loan scheme was introduced, 253 thousand students have borrowed it. In the school year 2007/2008, a total amount of loans of HUF 22,3 billion was lent by the Student Loan Centre for 84 thousand borrowers. There was an average amount of loan of HUF 265 thousand per borrower. Concerning the type of funding, 43% of borrowers were privately funded students; the others were funded by the state. By type of course, 68% were full-time students, the others were weekend, part-time or distance-learning students. In repayments, which have started in 2003, a significant overpayment can be observed; up to the end of the school year 2007/2008, there was a total of HUF 32.2 billion repayment, 188% of the payables.⁴

Research and development, innovation

According to one of the concrete objectives of the European Union the R&D expenditure of member states should reach 3% of GDP by 2010, and 2/3 of that should be financed by the business enterprise sector. The research and development expenditure of member states of the European Union remains below the target value by over one percentage point on average (in 2007 the average was 1.83%). The share of R&D-related expenditure was the highest in Sweden and Finland (3.64% and 3.47%, respectively). The ratios of the new member states did not reach 1% with the exception of the Czech Republic and Slovenia, and, what is more, the expenditure level of Greece and Portugal, either, among the old member states. In Hungary total expenditure on research and development amounted to HUF 245.7 billion in 2007, which was 3.3% more at current prices than in the previous year, though its ratio to GDP was down from 1.00% to 0.97%. While the research and development expenditure of research institutes and of R&D units in higher education slightly decreased, that of the business enterprise sector was up. Within expenditure current expenditure equalled HUF 212.4 billion, 11% more than a year earlier, while capital expenditure HUF 28 billion, 33% less. The role of business enterprises in financing R&D expenditure grew further, even if only to a minor extent. Their share after rounding was 44% in 2007, 0.6 percentage point higher than in 2006, but even this way essentially lower than the EU-27 average, which was equivalent with about 55% in 2005. In Hungary the share of general government sources diminished from 44.8% to 44.4%, that of external sources from 11.3% to 11.1%, and that of non-profit organisations remained unaltered at 0.6%. According to year 2007 international data – the availability of which is limited – the share financed by business enterprises was the highest in Finland, with 68%, while the other extreme was represented by Romania (27%) and Slovakia (36%).

⁴ Source: www.diakhitel.hu.

Figure 24: Source of funds of research and development expenditure



In research and development units as a whole a lower proportion than earlier on, 23% of current R&D expenditure was spent on basic research, 38% on applied research and also 38% on experimental development. The share of expenditure on basic research has been declining in Hungary since 2005.

The regional distribution of expenditure reveals that organisations located in the region of Central Hungary used 66% of total R&D expenditure, approximately 4 percentage points less than in the previous year. Northern Great Plain was ranked second with 8.5%, and Southern Transdanubia had the lowest share, 2.5%.

The actual size of staff performing research and development activities in various R&D units was 49,485 persons, which meant a decrease by 1.8% compared to 2006. However, the number and share of researchers as well as technicians and R&D assistants within total staff went up, i.e. the decline affected the number of other manual and non-manual workers. In 2007 the share of researchers was 67%, while that of technicians and R&D assistants 17%.

In the majority of R&D units persons employed carry out research and development activities only in a part of their total working time, therefore a more realistic picture is provided of the human resource side of the R&D-field by the full-time equivalent staff number, which is calculated using the share of research activities in total working time. The full-time equivalent

staff of research and development units totalled 25,954 persons in 2007. This was a decrease by 17 persons or 0.1% compared to 2006. The full-time equivalent staff number of researchers was down by 0.9% even though their actual staff number grew, the reason for which was that somewhat less time was spent on research and development activities than in the previous year. In R&D units of business enterprises total full-time equivalent staff number was 11.5% higher than one year earlier, within which the staff number of researchers in full-time equivalents increased by 11.8%.

Table 10: Research and development expenditure and staff number by types of organisations

| Types of organisations | Total expenditure | | Full-time equivalent staff number, total | |
|-------------------------------|----------------------------|--------------------------|--|-----------------|
| | million HUF | distribution, % | persons | distribution, % |
| Research institutes | 59,337 | 24.2 | 7,834 | 30.2 |
| Higher education institutions | 57,365 | 23.3 | 7,778 | 30.0 |
| Business enterprises | 123,669 | 50.3 | 10,342 | 39.8 |
| Total | 245,693^a | 100.0^a | 25,954 | 100.0 |

^a Including the amounts paid from the state budget and spent on the honorariums and salary supplements of persons holding a scientific degree, and on state scientific scholarships.

The full-time equivalent staff number of female researchers in all research and development units did not change in 2007: their share was about 32%, which was higher than the EU-27 average of 28%.

75% of persons employed in the area of R&D completed a level of higher education, and 24% also had a PhD or DLA degree. The corresponding proportions in the business enterprise sector were 69% and 7.4%, respectively. The number of persons who attained a level of higher education rose by 2.3 percentage points in the total R&D field, and to a lower extent, by 1.4 percentage points in the business enterprise sector compared to 2006.

638 foreign researchers worked in Hungary in 2007, 21% more than in the previous year. 70% of foreign

researchers arrived from EU member states, and 61% of them work in higher education institutions. The number of Hungarians working abroad for more than 6 months went up, too, to 283 in 2007, which was 18% higher than in the previous year. In 2007 there were 506 Hungarian holders of a scholarship abroad, 54% of whom went to one of the EU member states.

The most Hungarian and foreign-language publications were issued by R&D units of higher education institutions. The number of Hungarian-language articles per hundred researchers was 210 in this sector, 92 in research institutes and 14 in business enterprises, while the number of foreign-language articles per hundred researchers was 155 in R&D units of higher education institutions, 94 in research institutes and 6 in business enterprises.

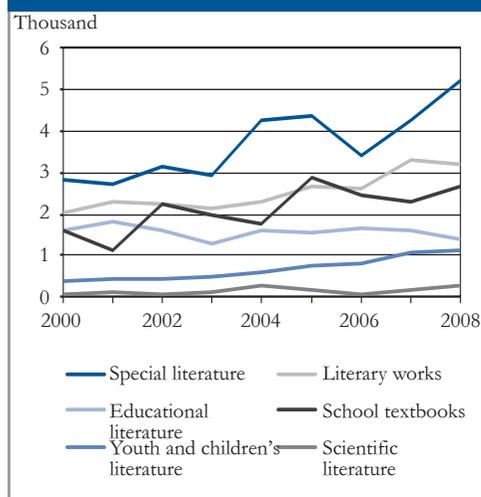
Between 2000 and 2007 the number of patent applications filed in the Hungarian Patent Office significantly declined, since on 1st January 2003 the Hungarian Patent Office joined the European Patent Convention (EPC). Based on this European patents can be applied for Hungary as well, and European applications can be submitted to the Hungarian Patent Office, too. Earlier on, in the lack of the international convention, foreign business enterprises appearing on the Hungarian markets submitted applications for their latest successful developments to the Hungarian Patent Office as well, so 4,073 of the 4,883 patent applications registered in 2000 were applications from abroad. In 2007 a total of 791 patent applications were filed, 686 of which were Hungarian and 105 foreign ones. The number and share of foreign patent applications decreased further in comparison with 2006, their share representing 13% in 2007.

Culture

In 2008, the number of **books** published was 9% up on the previous year, thus the earlier trend continued. Scientific, special works and school textbooks showed an increase above the average. The number of literary works and especially educational books fell compared to 2007. The share of special literature, having the largest assortment among all the books, increased

further to 36%, literary works were invariably the second in the rank with 22%. The copy number of published books did not change practically as opposed to the 11% growth a year earlier. The number of copies grew in 2008 first of all for scientific works, to a smaller extent for school textbooks and special literature and even more moderately for youth and children's literature, while it decreased especially in case of educational books and literary works.

Figure 25: Number of published books by genre



Both the number of books and the number of copies increased in case of scientific, educational and special literature, most significantly in the field of religion and theology, which has otherwise only a small share, but the number of books also grew significantly in the field of natural sciences; fine arts; sport, games; philosophy; psychology and social sciences as well. At the same time, the number of copies fell in the latter two human sciences. Among literary works, only the number of plays increased on the year before, but their share is still merely 2%. 70% of all the works are novels, short stories, 18% are poems, anthology and 10% are other literary works. The number of copies did not fall but stagnated only for plays. The proportion of titles of Hungarian and British authors within all literary works increased at the expense of American authors.

According to the data of the Hungarian Publishers' and Booksellers' Association, the total **book turnover** was nearly HUF 67 billion 611 million in 2008, exceeding by 1% at current prices the turnover a year earlier. Within that, the turnover of school textbooks and language books increased by 3.8% at current prices. The position of educational works in publishing weakened due to the 6% fall in turnover. The turnover of literary works was 6.9% down. In the branch of special and scientific works, encyclopaedias and dictionaries, the market loss continued, the fall in turnover was 16%. The turnover of books for children and youth grew by HUF 2 billion, i.e. by 31%. Book publishers in foreign ownership in Hungary accounted for 32% of the total book turnover; their proportion grew by 1.7 percentage points compared to the previous year, which resulted from a 6.5% increase in turnover.

In 2007, the number of national special **libraries** was 15, the same as in the previous year, while that of public (community) libraries was nearly 3 thousand, 391 more than a year earlier. The book stock in national special libraries consisted of 14.4 million library units; it increased by 162 thousand over the year, while the number of registered readers was 84 thousand, 5 thousand up on 2006. The book stock of public (community) libraries consisted of 41.7 million units, 1.2 million fewer than in 2006. The number of registered users amounted to 1.4 million persons, it diminished by 85 thousand compared to the year before. These libraries borrowed 27.2 million books during the year, 2.6 million less than in 2006. The ratio of borrowed units to the total stock has been decreasing since the mid 1990s, and it was 65% in 2007.

Among **printed publications**, the number of copies of national and county-wide daily papers and weeklies continued to decrease apart from some exceptions. The growing popularity of Internet journalism, within that the online version of traditional newspapers and the new information and news portals, contributes to the relatively unchanged number in the copies of political, economic journals, programme journals and other printed materials.

The number of **cinema attendances** continued to decrease; in 2008 10 million cinema-goers were

registered, half of them in the cinemas of Budapest. In parallel with this, due to the expansion of multiplex cinemas, the number of cinema performances has grown since the end of the 1990s apart from the temporary decrease in 2006. Last year there were 441 thousand projections, 6 thousand more than a year before. At the same time, the number of cinema halls kept falling: last year there were 394 cinema halls, 6 fewer than a year before (among the closed cinema halls 4 were in the capital city). Receipts from tickets per cinema-goer were HUF 877, HUF 27 less than in the previous year. The majority of cinema-goers give preference to American films; the 11% share of cinema-goers watching Hungarian films did not change essentially following the decline in 2007.

The number of **theatres**, which grew slowly from the 1990s to the middle of this decade, fell in 2008 by two to 54. The number of theatre halls decreased by eight, and 48 out of the altogether 113 theatre halls were in Budapest. The number of full-time theatre workers has been decreasing since 2006, and it was 5,272 in 2008, 1.4% down on the previous year. The number of performances did not change practically. Following a growth for four years, the number of theatre attendances has been decreasing since 2005, and last year it fell by 4% compared to the previous year. More than half of the 3 million 890 thousand theatre attendances were in Budapest.

In 2008, 1,473 **concerts** were held, more than in any year of the decade. As opposed to the decrease in the former years, the number of attendances grew again in 2008 reaching 416 thousand, 3% more than in 2007.

The number of **museum institutions** was practically unchanged: 661 institutions were registered in 2008. The number of exhibitions organized by museums was more than 3 thousand, i.e. the offer extended by 5% compared to 2007. The number of attendances grew from the beginning of this decade till 2006 reaching nearly 12 million, and it has been decreasing since that time. Last year it was 12% down on the year before, and approximately 10 million attendances were registered. Museum attendances per hundred inhabitants fell to 99 from 111 in 2007.

Among **public broadcasters**, the total broadcasting time of radios was nearly 31 thousand

hours, by 8.5% down on the year before. Within that, the share of music programmes, accounting for the largest proportion, increased by 10 percentage points, thus reaching 51%. The share of news and information programmes fell by 2 percentage points, while that of literary and entertainment programmes diminished to less than one third compared to the year before. The significant decline can be explained by the change in the structure of public service radio. The public television broadcasting time did not change practically; it amounted to 26 thousand hours. Within that, news, information, literary and entertainment programmes represented again the highest proportion, nearly one third of the total broadcasting time each. In 2008, the broadcasting time of news fell by 8% that of entertainment diminished by 2% compared to the year before, while the broadcasting time of music programmes grew more than twofold. An increase in the number of request shows and concerts, as well as their repeats contributed to the significant rise in the proportion of music programmes.

According to data of household statistics, **expenditure** on culture and recreation in 2007 accounted for 7.8% of the total expenditure, slightly less than in 2006. 1.8% of the total expenditure per capita was spent on cultural services (like cinema, theatre and museum). According to most recent

international data, in 2005, households in the EU-27 spent 1.1% of the total expenditure per capita on these services on the average, while this proportion in Hungary was that year essentially the same as now. In 2005, we spent 1.6% on books, newspapers and periodicals, while the EU-27 average was 1.4%. Since that time, the proportion of household expenditure spent on books and journals has diminished significantly, and it was 1.1% in 2007.

Cultural expenditure of the government exceeded HUF 173 billion in 2007, and was about the same at current prices as in 2006 (exceeds only by 0.4% the value in 2006). The majority, nearly 58% of the expenditure was spent on the maintenance of cultural institutes (arts and community centres, libraries, archives, museums). Expenditure spent on these institutes decreased by 2.8%, however, expenditure spent on libraries increased by 3.7% within that. 23% of cultural expenditure was spent on financing arts activities (theatres, music and dance art); within that, expenditure on theatres grew by 3.5%. The subsidy of book production, music and newspaper publishing decreased further in 2007, by 17% on the year before. Within total expenditure, expenditure on national parks, zoos and botanical gardens grew the most, and their share rose to 8.5% from 5.6%.

Economic processes

International economic events

According to data of the International Monetary Fund **global production** expanded by 3.2%, in 2008 at a 2.0 percentage point lower rate than in 2007. Duality was characteristic of the year considering that the mortgage and housing market crisis having broken out in the United States in August 2007 affected to a relatively limited degree the whole of the real sphere of global economy until September 2008, when Lehman Brothers, an investment bank went bankrupt. At that time, however, the impact of the financial crisis spread very fast to the real sphere, and the sharp decrease of consumer and business confidence reduced corporate expenditure on investment, and household expenditure on consumption. Within the year the European Union (EU-27) and Japan turned into a recession in the third quarter, while the United States in the last quarter of the year, i.e. their gross domestic product lessened in two consecutive quarters compared to the previous quarter. In the last quarter of the year the GDP of developed countries declined to an unprecedented extent, with which a growth of 0.9% was observed for the year as a whole.

The volume of **global trade** was up by 2.0% in 2008, which was only a third of what was measured in the previous year and also the rate of increase recorded in the last ten years. Influenced by the decline of demand on a global scale, the insufficient volume of commercial loans and occasionally strengthening protectionism the level of global trade in the last quarter has already been 6.0% lower than in the previous quarter. The value of **foreign direct investment flows** in 2008 (1.4 trillion dollars) was more than one fifth less than in the previous year – when they reached a historic record, which may have an unfavourable impact on the future pattern of trade. The **euro-dollar cross rate** indicates the appreciation of the European currency: in 2008 on average 1.47 dollars had to be paid per euro, 7.3% more than in 2007, and 17% more than two years earlier.

Among **raw materials** the current price of crude petroleum expressed in dollars increased in 2008, too, the annual average price of this fuel was 97 dollars per barrel, which was 36% higher than in the year before. (At an annual level the price of the energy source declined in 2001 for the last time.) Within the year the price of this product fluctuated a lot: it was nearly one and a half times as high in July as in January; however, the price in December – due to the spillover of the financial crisis to the real sphere – did not reach even a third of that in July. As for the basic materials of food products the fluctuation of prices within the year followed a similar tendency, but to a lower extent, and on an annual basis the dollar level of the product group was 23% higher than a year earlier. Out of the raw materials with relatively significant weight the dollar price level of metals decreased (8.0%) only, in which the price decrease of nickel played the most dominant role (43%). In all, annual global inflation accelerated from 4.0% in 2007 to 6.0% in 2008.

The gross domestic product of the **United States** expanded by 1.1% in 2008, which – similarly to the previous three years – meant the slowdown of the growth rate but the economy developed to a still higher extent than in the other developed regions of the world. This was due above all to the more and more favourable pattern of net exports – the lower and lower import surplus – from year to year, which reduces the impact of investments shrinking for the second consecutive year already and of expenditure on consumption following an unfavourable tendency in 2008.

Among developed countries the global economic crisis may have hit **Japan** the most severely, the GDP of which showed a decrease not only in the last one or two quarters but also in the course of the year as a whole (0.6%). This was dominantly influenced by capital goods and the products of crisis-hit branches of industry, such as electronic industry and the manufacture of transport equipment, representing a con-

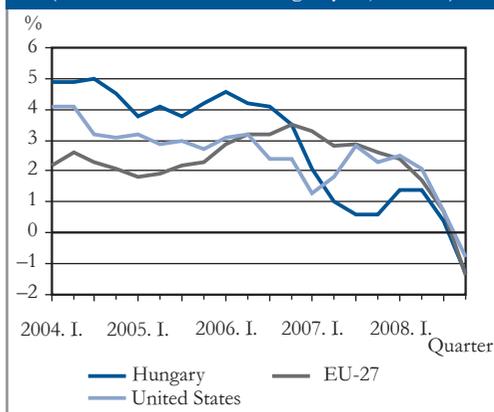
siderable proportion in the production and exports of the island country.

The crisis affected developing and emerging countries too: the growth of their gross domestic product slowed down to 6.1% in 2008 from 8.3% in the previous year. Out of these countries the GDP of **China** expanded by 9.0%, the lowest pace in the past seven years, but a slowdown was measured in case of **India** as well, where the 7.3% rate of increase was 2.0 percentage points lower than in 2007.

In the **European Union** the GDP was up by 0.9% in 2008, which was only a third of the average measured in the previous business cycle – between 2004 and 2007. A significant part of the fall of the growth rate was caused by the change of gross fixed capital formation, the level of which remained unchanged in 2008, as opposed to the previous two years, during which a total increase of 12% occurred. Among large member states of the European Union the GDP of Germany, the United Kingdom and France grew by 1.3%, 0.7% and 0.8%, respectively, while that of Italy was down by 1.0%. More and more member states turned into recession from the second quarter of the year, and on an annual basis the economic growth decelerated or a fall was observed in all member states except for Romania. In the central and eastern European region a decrease of 3.6% was registered in Estonia and of 4.6% in Latvia, countries reaching up to 10–12% economic increases in some previous years. Among the Visegrád countries the gross domestic product of the Czech Republic, Poland and Slovakia was 4.4%, 4.8% and 6.4% higher, respectively. The GDP of Hungary grew by 0.6% in 2008, to the lowest extent among the Visegrád countries similarly to the previous two years.

The level of development in international comparison is shown by the **GDP per capita measured in purchasing power parity**, which eliminates the impact of differences in national price levels. For 2008 only estimated data are available. According to these among the large member states of the European Union the GDP per capita of Germany, the United Kingdom and France exceeded by 16%, 18% and 9% the EU average. In Italy the GDP per capita was still 17%

Figure 26: Change of GDP compared to the same quarter of the previous year (after seasonal and working-day adjustment)



higher than the average at the turn of the millennium, and it was somewhat lower than that in 2008. Out of the newly acceded central and eastern European countries Slovenia continues to be the most developed, with 92% of the EU average, which is followed by the Czech Republic and Slovakia with respective 83% and 70%. Hungary – following Estonia – is the fifth most developed country in the region. Its level of development came closest to the average of the EU in 2006, reaching 63.5% of that; since then this proportion has become 1 percentage point lower.

The development level and progress of an economy is influenced by labour and capital productivity as well as the increase of the multi-factor productivity permitting the more efficient use of these two factors of production. Among these indicators the highest attention may be paid to **labour productivity**, which is calculated as gross domestic product – in purchasing power parity – per person employed or hour worked. A more detailed picture is provided by production per hour completed, since it eliminates the impact of differences in national rates of part-time employment and in national lengths of weekly working time. According to the latest available, year 2007 data higher GDP per capita typically implies higher labour productivity, but there are considerable differences, too, in country rankings. Out of the large member states of the European Union labour productivity of France

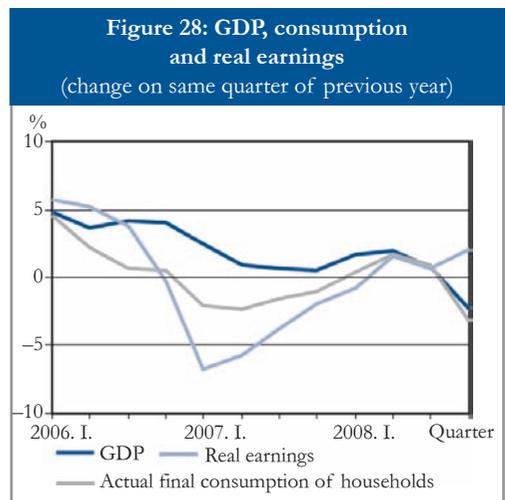
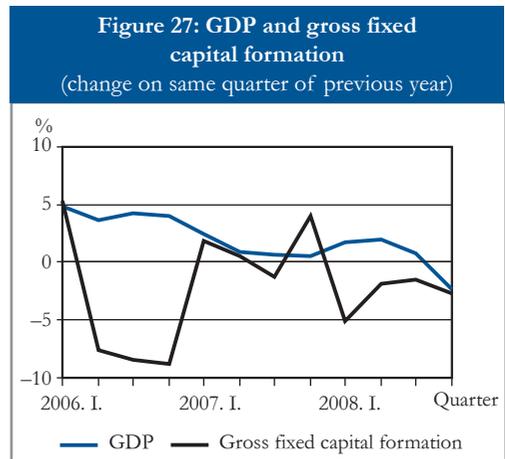
and Germany, having the least hours worked per person, surpassed the EU average by 32% and 25%, respectively. The indicator of the United Kingdom was higher than the EU average by only 4%, but was two percentage points lower than the productivity of the Spanish labour force. The performance of Italian employees was equivalent with the average of the EU. Among the newly acceded central and eastern European countries Slovenia is the most developed in this respect as well, standing at 82% of the EU average in 2007. This country is followed by three Visegrád countries in the rankings: Slovakia (70%) as well as the Czech Republic and Hungary (61% each). The labour productivity of Hungary has grown at a decelerating rate in the past few years: while in 2004 the increase came to 5.5%, it was only 1.3% three years later. The lowest labour productivity among the Visegrád countries, not even reaching half the EU average, was recorded in Poland.

Macroeconomic processes in Hungary

With the progress of economic restructuring and the closer co-operation with the economy of the European Union the open and relatively small-sized Hungarian economy mainly developed following the European and global economic business cycles. The dynamics observed in the years round EU accession, significantly exceeding the growth registered in more developed countries of the European Union, helped the process of closing up, the growth rate being close to that of the Visegrád countries, with similar levels of development and similar historic past. The measures started in 2006 – aiming to cut the unsustainable deficit of the general government, narrowing primarily demand – resulted in the slowdown of the dynamics of growth. The gross domestic product (GDP) rose by 4.0% in 2006, and simultaneously with the evolution of budget-balance-improving measures at a decelerating pace within the year of 2007, by 1.2% annually. The deficit of the general government decreased from 9.2% to 5.4% of GDP.

In 2008 Hungary’s economic performance was influenced on the one hand by internal balance-im-

proving efforts and measures, and on the other hand, mainly in the second half of the year, by the effects of the financial and economic crisis spreading on a global scale. Although in spite of the deteriorating international economic situation the Hungarian economy expanded by 2% in the first half of 2008, and at a decelerating rate, by 1.3% in Q3 as measured against the same period of the previous year, in the last quarter of the year a decline (2.5%) was recorded in Hungary as well. In the year as a whole the rate of economic increase was down to 0.6%.



The **structure of economic growth** – for internal and external reasons – in many respects differed from what was observed in the past ten years. Influenced by the balance-improving measures the factors of economic development – relying on three pillars in previous years, namely the growth of investments, consumption and exports – changed from 2007, and because of a decreasing internal demand growth tended to be based on export expansion alone. This highly enhanced the vulnerability of the economy.

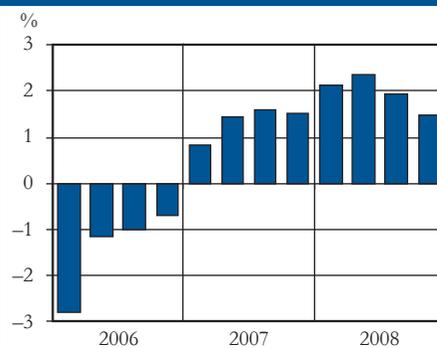
Consumption expenditure of households, the item having the largest proportion on the expenditure side of GDP, diminished by 0.7% in 2008 as opposed to the decelerating rises in the previous two years, while the volume of transfers in kind received from the government – after a 10% drop in 2007 – grew by 2.9% in the previous year. Transfers in kind supporting households, received from non-profit institutions, decreased again in volume, by 2.8% in the previous year after a decline of 6% in 2006 and an increase of 1.7% in 2007. The **actual final consumption of households** – including both the own purchases of households and the received transfers – essentially stagnated in 2008 as a result of changes in opposite directions. Following a rise by 4.9% in 2006 **government consumption** was cut by 4.1% and 2.1% in 2007 and 2008, respectively. **Final consumption**, the sum of these two items, was 1.9% and 0.4% lower in the last two years, respectively, than in the previous year.

Gross fixed capital formation, which plays a key role in the development of the economy on both the demand and the supply side, and indirectly reflects the expectations of market actors as well, was one of the main drivers of economic growth until 2005. After the fall in 2006 and the 1.8% rise in 2007 its volume lessened by 2.6% in 2008. The volume of investments, making up the decisive part of this item of use, was 3.0% less than a year earlier. The investment performance of all branches with relatively large weight decreased: that of manufacturing – consistent with the high base in the previous year – by 3.6%, in transport, typically due to the decline of road constructions based on state orders, by 6.0%, and that of

real estate activities, including dwelling constructions, by 1.5%. The largest drop was suffered by non-market services (public administration, education, health), as well as other community, social and personal service activities. A few smaller branches increased their investments, the developments of agriculture rising to the highest degree.

Total domestic use (consumption and capital formation) essentially stagnated in 2008 after the decrease of 1% in 2007. The value of domestic use at current prices remained below that of the gross domestic product in 2008 similarly to the previous year, which resulted again in an external trade surplus.

Figure 29: Net exports as a proportion of GDP*



* At current prices, quarterly data cumulated within the year.

External trade in goods and services has already been one of the most important driving forces of economic growth in 2005 as well. In 2007 and 2008 as a consequence of the decreasing or stagnating domestic demand the growth – analysing the expenditure side of GDP – was almost solely due to our net export position. After the continuous and – in the past few years – mainly two-digit increases the increase in the volume of exports and imports markedly decelerated in 2008 as a result of the slump, and, what is more, considerably declined – by 8% on both sides – in the last quarter. On an annual basis, the volume of exports and imports rose by 4.6% and 4.0%, respectively.

Table 11: Gross national income

| Denomination | 2005 | 2006 | 2007 |
|---|--------|--------|--------|
| At current prices, billion HUF | | | |
| GDP | 21,993 | 23,775 | 25,479 |
| Balance of compensation of foreign employees | 208 | 241 | 259 |
| Balance of income of foreign owners | -1,484 | -1,734 | -2,121 |
| Of which: interest and dividend incomes | -1,036 | -1,341 | -1,555 |
| Reinvested earnings | -448 | -393 | -566 |
| Balance of taxes paid to and subsidies received from the EU | 77 | 118 | 111 |
| Overall adjustment | -1,199 | -1,375 | -1,751 |
| GNI | 20,794 | 22,400 | 23,728 |
| As a percentage | | | |
| Annual change of GNI, at constant prices | 3.6 | 3.6 | -0.1 |
| GNI as % of GDP | 94.5 | 94.2 | 93.1 |

In the countries where foreign capital has a significant role **gross national income (GNI)** is an important economic indicator, which can be derived from GDP by taking into account the primary allocation of incomes, crossing national borders. As opposed to GDP, GNI does not include the property income generated by foreign direct investments in Hungary and the income of foreign employees from Hungary, but includes the incomes of Hungarian investors and employees from abroad (compensation of employees, interests, dividends etc.). In the past few years the balance of employees' incomes showed a modest surplus of 1% of GDP, compared to the negative balance of property incomes accounting for 7–8% of GDP. All this indicates the role of foreign capital in the Hungarian economy, apparent not only in direct investments but significant also in portfolio investments and credit transactions. The income of foreign investors comprises reinvested earnings, too, which do not leave the country but increase foreign property. Their share within the income of foreign owners dropped from 2004 to 2006, and rose to 27% in 2007. The significant proportion of yield on capital investments, the other part of property incomes, indicates that foreign investors repatriate a considerable part of their capital income as interests and dividends.

The **production of gross domestic product** rose almost in all branches – except for agriculture,

highly depending on weather conditions – year by year after the turn of the millennium, a considerable change in which was first observed in 2007. The deceleration of growth and the decline of performance are mainly related to balance-improving measures, so their signs were first recorded in non-market (state) services branches and – due to the slowdown of road constructions depending on state orders – in construction. As a consequence of the decrease of real earnings in 2007 the shrinking of consumption was also observed in trade and catering branches, serving households, while export-oriented industrial branches and the related transport performances went on expanding dynamically. However, the financial and economic crises having evolved in 2008 had a considerable negative impact on these areas as well.

On the production side the key factor boosting the economy in 2008 was agriculture, its performance rose by about a half. The outstanding growth was caused by the low level of performance in the previous years, as well as the favourable weather conditions. The value added by the two other goods-producing branches did not reach that measured one year earlier. The industrial performance, relying on exports, decreased to such an extent in the second half of the year because of the deterioration of the international economic situation that it could not be offset by the rise in the first half-year. In construction a decline of

5.1% was registered, a lower rate than in 2007. Among relatively more significant services branches financial branches suffered the most severe fall. The reduced consumption of households can be followed up in trade branches as well; their performance was down by 2.1% on an annual basis, and by 5.2% in the last quarter. The fall of industry and trade had a negative impact on the branch of transport, storage, post and telecommunications, too, its value added in 2008 as a whole reaching essentially the level measured a year earlier, but decreasing already in the last two quarters. The volume of value added by services typically financed by the state rose by 0.7% after the decline of 3.4% in the previous year.

In the years following the change of regime the proportions characteristic of the **ownership structure**⁵ of the national economy until 2006 were established relatively fast. The passing of Act CVI of 2007 on State Property practically abolished the right of the state for one primary share. The change brought considerable changes in the national economy as a whole and in the ownership structure of individual branches as well. "Corporations with golden shares" were classified to public ownership until 2006, so the change was most apparent in this ownership category. The share of **public ownership** in total gross value added went down by nearly 6 percentage points, and came to 20.7% in 2007. Among branches the change reduced the weight of public ownership primarily in the branches of energy industry, financial intermediation and transport, storage, post and telecommunications, with the larger proportion reclassified to private domestic sector in the first case, and to foreign ownership in the latter cases. The share of public ownership in the value added exceeded 65% in three branches, and its role was exclusive only in public administration, defence and compulsory social security among them. In education, health and social work, where the private capital has already emerged in the nineties, the weight of the public ownership was essentially unchanged in the past few years (80 and around 66%, respectively).

The contribution of **foreign-owned enterprises** to gross value added rose from 24% in 2006 to 29%.

The proportion was up almost in every branch. The share of foreign ownership was dominant in three of them: 60% in manufacturing, 55% in mining and quarrying and 71% in financial intermediation.

The **domestic private sector** was the biggest owner in eight of the 14 industries, and its weight equalled or exceeded 70% in four of them. Its share of total gross value added (51%) slightly rose in comparison with 2006. The domestic private sector had a share of about 90% in agriculture and construction, and of over three fifths in five branches (energy industry; wholesale and retail trade, and repair of motor vehicles, motorcycles and personal and household goods; hotels and restaurants; real estate, renting and business activities; other service activities). The lowest majority share (37%) was observed in transport, storage, post and telecommunications, where the other two ownership categories also represented weights of about 30% each in 2007.

According to data on the **regional distribution** of gross domestic product in 2007 regional disparities did not widen considerably compared to the previous year; larger changes were characteristic for the first half of the 2000s. The performance of Central Hungary, the region including the capital city, remained outstanding. In 2007 47% of the gross domestic product was produced here (while 29% of the population live here), which indicates well the weight of the region. The contribution of Transdanubian regions to the total gross domestic product of Hungary was a total of nearly 27%, a similar percentage as that represented by the three eastern regions. The weights of individual regions vary between relatively narrow limits: Central Transdanubia had the largest (10.2%), and Southern Transdanubia the smallest (6.5%).

To analyse the level of development of individual regions per capita GDP figures can be used. The gross domestic product per capita was 2 million 534 thousand forints at national level in 2007. Considering the seven regions of Hungary regional disparities measured on the basis of the per capita indicator somewhat diminished (primarily with an increase of the level of development of Western Transdanubia

⁵ Classification by ownership sub-sectors is made according to the principle of majority ownership.

Table 12: Regional GDP data, 2007

| Region | Gross domestic product | | Per capita GDP | | |
|-----------------------|------------------------|-----------------|----------------|----------------------|---------------------------------|
| | billion HUF | distribution. % | thousand HUF | as a percentage of | |
| | | | | the national average | the average for Central Hungary |
| Central Hungary | 12,008 | 47.1 | 4,162 | 164.3 | 100.0 |
| Central Transdanubia | 2,607 | 10.2 | 2,357 | 93.0 | 56.6 |
| Western Transdanubia | 2,483 | 9.7 | 2,487 | 98.1 | 59.7 |
| Southern Transdanubia | 1,668 | 6.5 | 1,730 | 68.3 | 41.6 |
| Northern Hungary | 2,024 | 7.9 | 1,627 | 64.2 | 39.1 |
| Northern Great Plain | 2,426 | 9.5 | 1,596 | 63.0 | 38.3 |
| Southern Great Plain | 2,265 | 8.9 | 1,692 | 66.8 | 40.7 |
| Total | 25,479 | 100.0 | 2,534 | 100.0 | 60.9 |

and a weakening of Central Transdanubia), though the rankings were unchanged compared to the previous year.

Central Hungary continues to be the first, followed by Western Transdanubia and Central Transdanubia. The per capita GDP is higher in the Central Hungarian region than the national average, and approaches that in Western Transdanubia and Central Transdanubia. (The order of the three regions has been unchanged according to regional GDP calculations made for 13 years.) The remaining four regions – lagging behind the national average by 32–37% – reached nearly the same level.

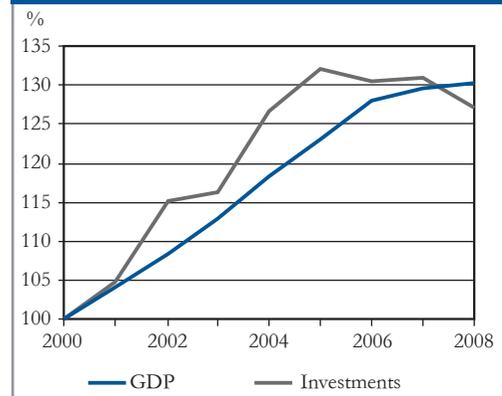
Investment

The volume of **gross fixed capital formation, interpreted** as having a somewhat wider content than investments decreased by 2.6% in 2008 after a fall in 2006 and a modest rise in 2007..In the European Union stagnation was recorded in 2008, following rises of about 6% in 2006 and 2007. Bulgaria and Romania went on raising their gross fixed capital formation at a two-digit rate, while some other countries also increased it, though to a lower extent. However, in half of the member states a decline was observed in 2008. Gross fixed capital formation as a proportion of GDP equalled a relatively stable average of 21% in EU member states, which is essentially the same rate as that of Hungary. The change of the indicator in

Hungary indicates a decreasing trend in the past few years, with fluctuations though. In emerging countries of the EU – especially in the Baltic States, in Bulgaria and in Romania – the rate reached an essentially higher level than in Hungary, while lower-than-average rates occurred in the developed old member states.

In the years following the turn of the millennium the dynamics of developments fluctuated in Hungary. In the first years of the decade a marked expansion was observed, with the volume of **investments in the national economy** rising at a faster rate than the gross domestic product. In comparison, a significant decline of the rate was measured in 2003, and the accession to the European Union – thanks to both

Figure 30: Volume of GDP and investments (2000=100)



the accelerating foreign direct investments inflows and the development funds from the EU – gave another impetus. The favourable trend lasted until the beginning of 2006, after which the balance-improving measures brought about the narrowing of domestic use, including investments.

After the volume expansion of nearly 10% in the Q I of 2006 the willingness to invest dropped to such a degree that a decrease of 2.0% was recorded for the year as a whole. As for the last two years the volume of investments was higher only in two quarters (Q I and Q IV of 2007) than in the corresponding period of the year before, thus the performance did not diminish in 2007. In 2008 4,791 billion forints were spent on investments in the national economy, 3.0% less at constant prices than a year earlier. Developments went down in each quarter of the year. In the second half of the year falls were registered in more and more areas, and in the last quarter of 2008 the investment performance of all branches with the exception of agriculture as well as of mining and quarrying – representing low weight – showed stagnation or decline.

In 2008 all of the three **branches** with the largest weight made fewer developments than one year before. The volume of investments in manufacturing, best reflecting the situation assessment and expectations of the market, contracted by 3.6%, which was also caused by the high base measured a year earlier. (In 2007 manufacturing investments were up by 24%, primarily as a result of large volume developments in the manufacture of rubber products, transport equipment and radio, television and communication equipment.) Investments in transport, including public road construction and repair, decreased almost continuously from the Q II of 2006. Total developments in the branch were 6.0% lower in 2008 than in the previous year after the expansion of 5.6% in 2006 and the downturn of 2.0% in 2007. Within total investments real estate, renting and business activities had the largest share. The slight volume decrease of investments in this industry continued in 2008, too, at a rate of 1.5%.

Out of productive branches representing lower or medium shares within investment expenditure the volume of developments rose in 2008 in agricul-

ture (24%), energy industry (6.2%) and construction (9.1%) as well. The growth occurred in all the branches following decreasing levels of development in the two previous years. Among business services the volume of investments in 2008 in wholesale and retail trade, and repair of motor vehicles, motorcycles and personal and household goods, as well as in hotels and restaurants and financial intermediation was also higher than in the year before (by 7.3%, 11% and 1.1%, respectively), within which investments in tourism were steadily rising for the fourth consecutive year.

In non-market, typically public services (public administration, education, health) investments considerably decreased in all industries after the volume increase in 2006. The volume of investments declined at the highest pace in public administration, by about 30% in both 2007 and 2008. Contractions of 13% and 14%, respectively, were observed in education, while in health, after a drop of 12% in real terms in 2007, a 6.2% increase was observed in the first half of 2008, a higher-rate fall in the second half, and a decrease of 2.1% on an annual basis. Developments in the branch of other community, social and personal service activities lessened for three years, in 2008 at a rate of 16%.

Consistent with the sharp rise in the number of dwellings built, the distribution of investments by **legal forms** considerably changed at the beginning of the 2000s in favour of household investments (related to individual economic activities) as opposed to corporate investments. Although in the last few years the share of household investments diminished, only their volume rose in 2008, the developments of corporations decreased to a low extent, while those of government institutions by over a fifth – for the second consecutive year – compared to the year before. Last year the weight of corporate developments was 71%, the share of investments financed by government authorities was 10%, while the proportion of investments related to individual economic activities was up to 19%.

In 2008 nearly 55% of expenditure on investments was spent on **constructions**, and 43% on the purchase of **machinery, equipment and vehicles**.

Table 13: Regional data by location of implementation of investments, 2007

| Region | Output value of investments of | | | | |
|-----------------------|--------------------------------|-----------------|--|---|-------------------------------------|
| | enterprises | | | enterprises with foreign direct investment ^a | |
| | billion HUF | distribution, % | per inhabitant, national average = 100 | billion HUF | regional total ^b = 100,0 |
| Central Hungary | 1,570.4 | 40.3 | 141 | 417.2 | 35.5 |
| Central Transdanubia | 589.8 | 15.1 | 138 | 336.4 | 62.3 |
| Western Transdanubia | 343.7 | 8.8 | 89 | 138.2 | 47.3 |
| Southern Transdanubia | 272.6 | 7.0 | 73 | 47.6 | 19.8 |
| Northern Hungary | 290.9 | 7.5 | 60 | 100.1 | 38.9 |
| Northern Great Plain | 461.4 | 11.8 | 79 | 101.1 | 24.6 |
| Southern Great Plain | 325.8 | 8.4 | 63 | 72.1 | 26.2 |
| Country total | 3,895.1 | 100.0 | 100 | 1,248.2 | 38.6 |

^a Data on enterprises covered by full-scale data supply.
^b Investments implemented in identical groups of enterprises.

The volume of construction investments was down by 6.8% compared to the previous year, while that of machinery investments grew by 2.7%. In the course of the year domestic and import machinery investments, having nearly the same shares within machinery, rose by approximately 3% each.

In the **regional** analysis of investments data available by location of the actual implementation of investments provide a more realistic picture than the infra-annual information by headquarters of investors. According to the available data (ending in 2007) the level and dynamics of investments realized in different regions did not help enough the closing up of economically underprivileged regions. Central Hungary has the greatest attraction; the developments implemented on its area represent two fifths of the total investment expenditure of Hungary, and developments per inhabitant exceed the national average here and in Central Transdanubia, while developments in Northern Hungary and Southern Great Plain lag the most behind that.

Foreign capital has an important role in the development of the Hungarian economy, where it implements a substantial part of investments. In the years since the turn of the millennium enterprises with foreign direct investment realized 36%–46% of invest-

ments. Their share in investments was the highest in 2001: 46%. In the subsequent years the weight of their developments fluctuated, still they represented four tenths of investments over seven years on average. Nearly seven tenths of **investments of enterprises with foreign direct investment** were devoted to develop industry, contributing to the modernisation of the branch and the achievement of a production level meeting the needs of export markets. Significant amounts of capital were attracted by trade and transport branches as well, firms with foreign direct investment spending 10% and 12%, respectively, of their total development expenditure on these areas. From another point of view 70% of the total output value of investments in the Hungarian industry was financed by enterprises with foreign direct investment over the seven years on average, which rate was 56% in trade and 23% in transport.

After rises of 5.4% in 2006 and 2.5% in 2007 **investment prices** were up by 3.2% in 2008. According to a tendency of several years the main factor of the price level increase was the price rise of construction investments, which was equal to 5.8% in 2008, the same rate as in the previous year. The price level of machinery investments diminished for the second consecutive year, resulting from the decline of import

machinery prices and the slight augmentation or stagnation of domestic machinery prices.

Foreign direct investments

According to the January estimate of the United Nations Conference on Trade and Development (UNCTAD) there was a break in 2008 in the considerable growth of foreign direct investments observed in the previous four years. The historic peak of 1.8 trillion dollars of **inflows** in 2007 was 3.3 times as high as four years before, though a drop of 21% occurred in 2008. The fall was consistent above all with the financial crisis as well as its impacts leading to less favourable borrowing opportunities and decreasing profit rates of corporations. However, psychological factors like the fear of a global recession also played a part. The decrease in 2008 resulted from the fall of direct investment flowing to developed countries by one third, since on average an increase (4%) – though essentially lower than in the previous year – was observed in developing countries and those in transformation. The reduction in global capital flows was caused by the fall of cross-border mergers and acquisitions, representing more than four fifths of the value of investments. International green-field investments were hit to a lower extent by the crisis in 2008. Stock data have only been available on year 2007 so far, according to which the **stock of foreign direct investments** in the world amounted to USD

15.2 trillion at the end of the year, 22% more than a year earlier. Over two thirds of this stock reaching 28% of global GDP operated in developed countries, and 45% in member states of the European Union.

At the end of 2007 the **stock of foreign capital operating in Hungary** was HUF 15.2 trillion, 10% more than one year before. Germany remained the most important investor country, although the value of its investments was unaltered compared to that recorded at the end of 2006.

Among the countries in the rankings the United Kingdom, the fourth most important investor country in 2006, lost three positions, which was basically the consequence of capital withdrawal in 2007 from the management activities of holding companies. At the same time capital investments from Luxembourg and Cyprus were on the increase again: the expansion in 2007 was mainly due to the surge of investments in business and management consultancy activities in case of the former country, and in the manufacture of basic iron and steel and of ferro-alloys as regards Cyprus. At the end of 2007 the ten most important investor countries possessed more than three quarters of the total capital stock.

The largest proportion, 36% of foreign capital stock invested in Hungary operated in manufacturing. The manufacture of transport equipment and that of electrical and optical equipment – both included in manufacturing – represented 11% and 6%, respectively, of the total stock. The capital stock operating in

Table 14: Major data on countries having the highest stocks of direct investments in Hungary at the end of 2007

| Rankings | Investor country | Billion HUF | End of 2006=100.0 | Share of total stock of investments, % |
|----------|------------------|-------------|-------------------|--|
| 1. | Germany | 3,728.8 | 100.1 | 24.6 |
| 2. | Netherlands | 2,157.6 | 113.8 | 14.2 |
| 3. | Austria | 1,967.2 | 125.4 | 13.0 |
| 4. | Luxembourg | 860.4 | 133.3 | 5.7 |
| 5. | France | 784.1 | 121.5 | 5.2 |
| 6. | United States | 747.5 | 138.4 | 4.9 |
| 7. | United Kingdom | 396.2 | 47.2 | 2.6 |
| 8. | Belgium | 370.2 | 118.9 | 2.4 |
| 9. | Cyprus | 361.0 | 182.6 | 2.4 |
| 10. | Italy | 250.4 | 104.0 | 1.7 |

manufacturing grew by 10% in 2007, which means the acceleration of the pace of increase compared to the previous year. However, in case of the services sector, including a large number of branches and accounting for 55% of the stock, the growth fell significantly: a rise of HUF 1.8 trillion was recorded in 2006 as against HUF 0.5 trillion in 2007. The key branch of services was represented by real estate, renting and business activities, where a fifth of the total capital stock operated. This was followed by wholesale and retail trade, and the repair of motor vehicles, motorcycles and personal and household goods (15%), but the share of financial intermediation was remarkable, too (12%).

In 2007 5.3% more enterprises with foreign direct investment (FDI) operated in Hungary than in the previous year, and their number (27,200) was higher than ever before. Based on the regional location of enterprises with FDI, Central Hungary, and Budapest within that, has a dominant role, since 69% and 60%, respectively, of this group of enterprises was registered there.

The owners' equity of enterprises with foreign direct investment came to HUF 21.0 trillion in 2007, 18% higher than in the previous year. Foreign direct investment had a share of 72% in owners' equity, which was the lowest rate in the past years. Net sales of enterprises with FDI expanded by 2.8% – at a lower rate than the increase of 26% in the previous year and the augmentation in the number of enterprises – in 2007, and were equivalent to HUF 34.0 trillion. However, the gross value added – remaining HUF 5.6 trillion, the same value as that observed in 2006 – did not expand, which was unprecedented in previous years.

The number of employees at this group of enterprises was 587 thousand persons, 1.9% less than the historic record in 2006. 55% of employees worked in manufacturing, their staff size – largely due to the decline of the staff number from 105 thousand to 94 thousand in the manufacture of electrical and optical equipment – fell by 4.8%. Out of branches outside manufacturing, wholesale and retail trade, and the repair of motor vehicles, motorcycles and personal and household goods were the largest employers, where one fifth of employees were employed. However, the highest increase in

employee numbers was recorded in real estate, renting and business activities, where the staff size of 66 thousand was 10 thousand more than in 2006.

In 2007 the monthly average gross earnings of employees at enterprises with foreign direct investment amounted to about HUF 256 thousand, about 40% more than the average of the national economy. Average gross earnings of people working for enterprises with FDI was up by 5.9% from 2006 to 2007, which lagged behind the average of the national economy and the private sector by 2 and 3 percentage points, respectively.

External merchandise trade of enterprises with foreign direct investment – similarly to total trade – expanded at a lower rate in 2007 than in the previous year. In 2006 the forint value of the turnover grew by about a quarter, which was followed by increases of 11% in exports and 8% in imports in 2007. (When evaluating the decrease of the rate it should be considered that the growth rates in 2006 measured in forints were pushed up by the depreciation of the forint by around 7% regarding total external trade, while those registered in 2007 were reduced by the approximately 5% appreciation.) During the year exports came to HUF 11.9 trillion and imports to HUF 12.8 trillion, which were equivalent to nearly seven tenths of total exports and some three quarters of total imports, respectively. Two thirds of imports came from the member states of the European Union, and four fifths of exports were sent there.

Investments of enterprises with FDI reached a historic record, one and a half trillion forints in 2007, which was 37% more than one year earlier. Four tenths of investments were made up of import machinery, one quarter of domestic machinery, while the remaining one third was represented by construction investments having expanded by 57%. The growth of construction investments was dominantly realized in real estate, renting and business activities, which was the most important branch – except for manufacturing – in 2007 where enterprises with foreign direct investment invested. The share of manufacturing in total investment output was 56%, within which the manufacture of electrical and optical equipment

and the manufacture of transport equipment can be highlighted as sub-branches having higher shares than 10% each of total investment output in 2007.

Capital invested by Hungarian enterprises abroad was HUF 2.9 trillion at the end of 2007, 23% more than a year before. Despite the considerable rise the rate of increase diminished as compared with those observed in former years. The most important investment destination was Slovakia, where a quarter of the Hungarian capital stock operated. The value of the Hungarian foreign direct capital investments operating in the United Kingdom (HUF 353 billion) increased 2.9-fold in 2007, so this country became the second most important destination. Croatia was ranked third (9%), which was followed by Bulgaria, the Netherlands and Romania, with a share of 5% each. The share of the ten most important partner countries of Hungary in the total capital stock invested abroad exceeded three quarters, similarly to the share reached by the same number of countries investing in Hungary. The significant difference was, however, that the countries representing the largest investments in Hungary had a higher level of development than Hungary did, while among the key investment destinations of the Hungarian capital there were essentially more central and eastern European countries – with levels of development more or less comparable to that of Hungary. Nearly six tenths of the foreign capital stock of Hungary operated in the services sector, while three tenths in manufacturing. In the former real estate, renting and business activities as well as financial intermediation had a considerable part, with 28% and 17% of the total capital stock, respectively. Out of manufacturing sub-branches the manufacture of coke and refined petroleum products continued to attract the most capital, 22% of the total stock at the end of 2007.

Balance of payments, foreign debt*

In 2008 the **current account** deficit was EUR 8.9 billion, equal to 8.5% of the gross domestic product. The balance deteriorated significantly, by EUR 2.3 billion in 2008, as opposed to previous years, during

which the annual change remained below 200 million euros, and the deficit fluctuated between 6.6 billion and 6.8 billion euros. The current account of the European Union shows a deficit of EUR 244 billion in 2008 in respect of extra-EU countries. The deficit was 104 billion higher than in the previous year, equivalent to 2.0% of GDP. Out of partner countries the most substantial deterioration of the balance occurred with the United States, the 61 billion euro surplus with which was only the half of what was measured a year earlier.

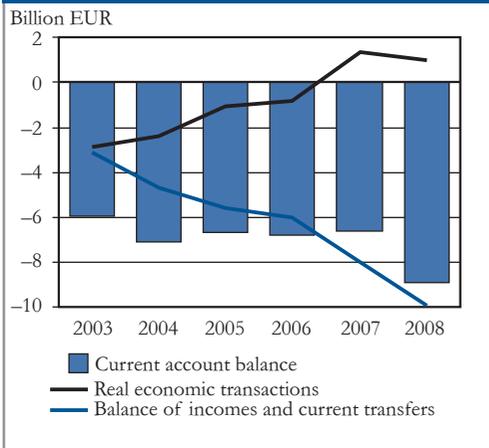
As for Hungary, the balance of real economic transactions in 2008 shows a surplus of some EUR 1 billion, 373 million less than in the previous year. This broke the improving trend as a result of which the deficit of 2.9 billion in 2003 turned into a surplus of 1.4 billion by 2007. The large majority of real economic transactions is represented by trade in goods, the balance of which showed an EUR 86 million surplus, 232 million euros less than in the previous year. In spite of the deterioration the balance was still much more favourable in 2008 than before 2007, in which years deficits exceeding EUR 2 billion were observed. The balance also deteriorated in case of services, and the revenue surplus of 910 million euros was the lowest in the last few years. Within this the surplus of travel services approximated EUR 1.4 billion, which was 60 million euros more than in 2007, when the least favourable balance of the past few years was registered.

The balance of income and current transfers went on deteriorating last year. The net outflow of incomes amounted to EUR 8.6 billion, 1.1 billion more than in 2007 and 3 billion euros more than in 2006. The deterioration of the balance in 2008 was influenced by the rising outflow of returns on debt-type investments, in case of which the expenditure surplus of EUR 2.1 billion in 2007 rose to 3.4 billion over a year. However, the net outflow of returns on non-debt-type investments did not grow, equalling EUR 6.3 billion, the same amount as in the previous year, though some one and a half billion more than in 2006. The dominant part, 95% of the net outflow of non-debt-type returns left Hungary in connection with direct

* The chapter was compiled using data of the National Bank of Hungary.

capital investments, while the sources available for the national economy decreased by EUR 255 million related to portfolio investments, i.e. investments representing a lower-than-10% share of foreign ownership. The surplus deriving from the compensation of employees employed abroad for less than a year – following the tendency observed in the previous years – rose further, and amounted to EUR 1.1 billion. The balance of current transfers in 2008 shows a deficit of EUR 1.3 billion.

Figure 31: Current account and its components



The balance of the **capital account** had a surplus of EUR 1.1 billion in 2008, which was somewhat less than one year before but significantly exceeded those recorded in the years preceding 2007. Revenues – approximating EUR 1.2 billion – of the capital account were represented almost exclusively by EU transfers, 86% of which enhanced the resources of the general government, while the remainder those of other sectors. The **need for external finance** (calculated “top-down”), i.e. the joint balance of the capital account and the current account, was EUR 7.8 billion in 2008, 2.3 billion euros more than in the previous year.

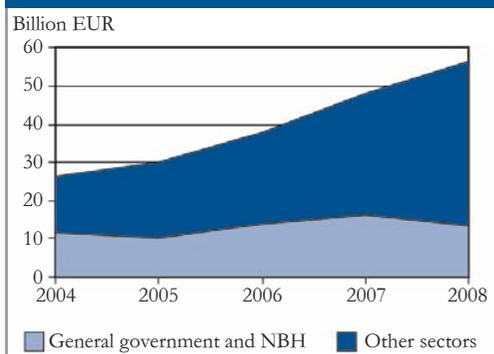
In 2008 1.2 billion euros of **non-debt generating resources** flowed in Hungary, as against the previous two years, when net outflows were observed (amount-

ing to 0.3 billion euros in 2006 and 4.7 billion in 2007). Of non-debt generating resources the balance of foreign direct capital flows in Hungary – represented by shares (including reinvested earnings) – showed a resource inflow of EUR 4.8 billion, a EUR 1.3 billion higher amount than in the previous year. Such capital investments by Hungarians abroad were EUR 1.2 billion, less than half of those in 2007, but also lower than the values measured in the years before that. However, the largest change occurred in portfolio investments, the outflow of which (EUR 2.4 billion) was 3.1 billion less in 2008 than one year earlier.

The gross **foreign debt** of Hungary – including direct investment other capital – rose by over 20% in each of the last few years. At the end of 2008, liabilities represented by the debt of residents came to EUR 119.3 billion, exceeding the annual GDP of Hungary by 13%. Following the trend of previous years the annual rate of debt increment of the general government and the National Bank of Hungary (NBH) in 2008 (15%) was lower than that of other sectors (25%), as a result of which more than two thirds of the gross debt stock has already burdened other sectors. The value of assets of the national economy was EUR 63.0 billion at the end of 2008, 26% more than one year before. The pace of increase was significantly higher than what was measured in former years, since growths of 19% and 15% occurred in 2006 and the subsequent year, respectively. A considerable part of the higher-rate rise in 2008 was influenced by the increase of international reserves, which rose to EUR 24 billion by the end of the year, one and a half times the value registered a year earlier. Reserves went up because of the international loan package received in the last quarter of the year, since the loans drawn were placed at the National Bank of Hungary as foreign currency deposits. Net foreign debt stock, the difference between gross foreign debt stock and asset stock, was EUR 56.3 billion at the end of 2008, equivalent with 53% of GDP. Net foreign debt stock increased by 17% in 2008, at a some 10 percentage points lower rate than in 2007 or 2006. The general government and the National

Bank of Hungary were burdened by less than a quarter of the net external debt stock, while other sectors by over three quarters of that. The debt stock of other sectors expanded by over a third, and the stock at the end of 2008 was more than 2.1 times higher than three years earlier.

Figure 32: Net foreign debt stock
(at end of year)



The **non-debt type** liability of the national economy (the total stock of direct capital investments and securities representing ownership rights) was EUR 48.2 billion at the end of 2008, equal to the difference between the foreign direct investment of EUR 64.5 billion in Hungary and the investment of EUR 16.3 billion by Hungarians abroad. Non-debt type liabilities grew by EUR 6.8 billion in 2006, while they decreased in 2007 and last year (by EUR 2.5 billion and EUR 6.0 billion, respectively). The decrease in 2007 was largely caused by increasing investments by Hungarians abroad. In contrast, the decline in 2008 was almost solely due to the falling value of the stock of foreign investments in Hungary.

External trade

According to a report published by the World Trade Organisation (WTO) the growth of **world trade** slowed further in 2008. The expansion of trade in goods was down from 8.5% in 2006 to 6.0% in 2007 and 2.0% in 2008, which was considerably lower than

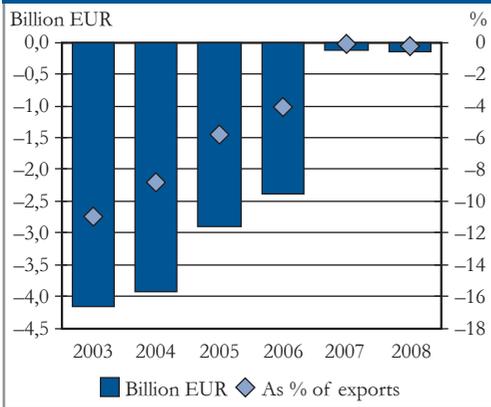
the 5.7% growth rate in the period of 1998–2008. In exports the Asian region and North America reached the fastest increase. Europe raised exports by 0.5%, which was one quarter of the volume growth in world trade; the export volume of the European Union (EU-27) remained at the level of the previous year. Middle and South America, the Community of Independent States, Africa and the Middle East, as well as in India out of Asian countries had a two-digit rise in import volumes. In Europe as a whole and in the European Union the volume of imports diminished by 1.0%. Higher falls were measured only in North America, and especially in the United States.

According to Eurostat data, in total trade of the 27 member states of the **European Union** – including both intra-EU and extra-EU trade – exports and imports represented 3.1% and 4.0% higher values in euro terms in 2008, respectively, than one year earlier. This meant a decrease of growth rates on both sides of trade compared to the previous year, when an increase of 6% was registered in case of both exports and imports. There was a significant difference between the growth rates of intra-EU trade and trade with third countries. Exports went up by 2.0%, and imports by 1.7% in the former group of countries, while much more significant, 5.4% and 8.1% expansions were observed, respectively, in the latter. On the average, intra-EU trade accounted for 67% of exports and 63% of imports of member states in 2008, which rates were similar in the previous two years as well. The balance of extra-EU trade shows a deficit of EUR 242 billion, 50 billion more than in 2007.

Hungary's external trade in goods was more lively than that of the European Union in terms of both exports and imports in the period of 2006–2008. In 2007 and the first four months of 2008 the dynamic increase – two-digit in almost every month – recorded in 2006 continued, followed by a gradual slowdown from May, and a more and more marked decrease in the last quarter due to the economic crisis. The volume of **exports** rose by 16% in 2007, and the rate of volume expansion fell to 3.4% in 2008. Similar trends were observed in case of **imports**: the volume of imports was up by 12% in 2007, and by 3.3% last year. The continuous

improvement of the **balance of trade in goods**, lasting for four years, stopped in 2008. The EUR 159 million deficit of the balance of external trade was EUR 39 million higher than one year earlier. The deficit of the balance in 2008 was equivalent with 0.2% of exports, which meant the decline of the **relative deficit** to one fifth over three years. This decrease occurred essentially in 2007, since last year – compared to the previous year – no change was registered.

Figure 33: Balance of external trade in goods (at current prices)



78% of Hungary’s exports were directed to countries of the **European Union** in 2008, 57% of which to the old member states (EU-15) and 21% to the new ones. The share of the European Union in imports was 68%, of which old member states accounted for 53%, and new member states for 15%. The volume of exports and imports within the European Union saw growth rates of 3.8% and 2.4%, respectively, in 2008 as compared to the previous year. Exports to new member states expanded at a particularly high pace, by 13%, and the increase of imports was also more considerable in case of new member states. The higher dynamics of exports than imports characterised both groups of countries, and this resulted in the improvement of the balance, or more specifically the growth of the surplus. Regarding EU trade as a whole, the surplus came to 7.3 billion euros in 2008 as

opposed to 6.4 billion in 2007, in which the share of the groups of old and new member states was essentially unchanged in the two years, equivalent to around 40% and 60%, respectively.

In the group of countries **outside the European Union**, accounting for 22% of total goods exports and 32% of imports, the growth of trade in goods essentially decelerated in both directions: while two-digit volume expansions of exports and imports were registered both in 2006 and 2007, the rise of exports fell to 1.5%, and that of imports to 5.4% in 2008. The trade deficit – primarily owing to the deficit of the energy balance increasing 1.5-fold – rose by EUR 956 million compared to 2007, as a consequence of which it exceeded EUR 7.4 billion in 2008. A key role was played in this process by the balance of external trade with **European countries outside the EU**: there was a surplus in the trade with this group of countries in 2007, followed by a deficit of 606 million euros in 2008. The main factor of the deterioration of the balance was the increase of the (historically and persistently high) deficit with Russia by a further 1.6 billion euros in comparison with the previous year to over 4 billion. The significant deficit of the balance of trade with countries outside the European Union continued to be determined by trade with the group of Asian countries, the imports from where in 2008 were many times higher than exports, similarly to former years. However, several years’ increase of the resulting

Table 15: Balance of external trade in goods by groups of countries

| (million EUR) | | | |
|---------------------------|---------------|-------------|-------------|
| Groups of countries | 2006 | 2007 | 2008 |
| European Union (EU-27) | 3,457 | 6,362 | 7,279 |
| Of which: | | | |
| EU-15 | 1,225 | 2,723 | 2,758 |
| new member states (EU-12) | 2,233 | 3,640 | 4,521 |
| Countries outside the EU | -5,836 | -6,482 | -7,438 |
| Of which: | | | |
| European countries | -872 | 438 | -606 |
| Asian countries | -6,550 | -8,469 | -8,004 |
| other countries | 1,586 | 1,549 | 1,172 |
| Total | -2,379 | -120 | -159 |

huge deficit of trade with **Asian countries** stopped in 2008, and, what is more, it was EUR 465 million less than in 2007. Nonetheless, the size of the deficit exceeded even so EUR 8 billion, more than four tenths of which came from external trade with China. The balance of external trade deteriorated only with China among the largest Asian partner countries.

The driving force of Hungary's external trade was **machinery and transport equipment**, which represented over six tenths of total exports and nearly half of imports. The value of their exports was persistently and increasingly higher than that of their imports, thus the surplus of their balance rose above EUR 8 billion. The growth of their export volume slowed down somewhat (to 19%) in 2007, and declined in 2008 – influenced by the more and more serious fall in QIV – to 3%. As the import needs of machinery exports are particularly high, the trend described for exports had an impact on imports, too: the volume increase of approximately 20% measured in 2007 was followed by more moderate import dynamics of 2% in 2008, in the pattern of which the 32% drop recorded in December had a decisive role. The major products of machinery exports and imports were telecommunications equipment, road vehicles and electrical machinery, apparatus and appliances, the export and import dynamics of which were – similarly to the commodity group as a whole – essentially lower in 2008 than a year be-

fore. The fall of both exports and imports at the end of the year was dominantly influenced by the decrease of trade outside the EU related to the production of mobile phones, within which exports went down to a considerably higher extent than the average, and imports represented only a small proportion of the turnover recorded a year earlier. At the end of the year two-digit drops were observed in both directions of trade in road vehicles as well, primarily due to the decreasing exports and imports of car parts.

Figure 35: External trade in manufactured goods

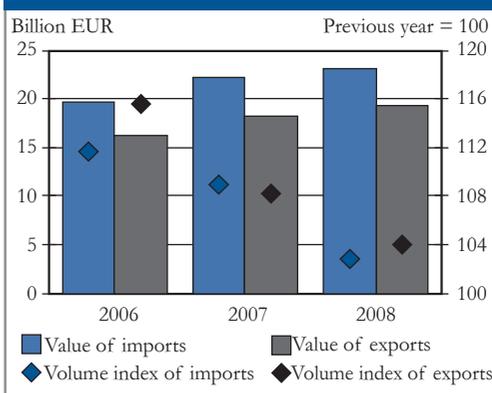
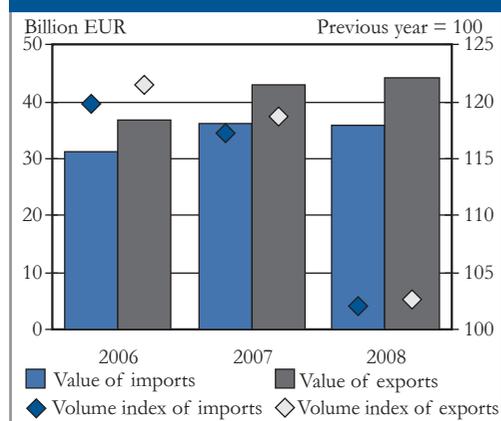


Figure 34: External trade in machinery and transport equipment



The second largest main commodity group was **manufactured goods**, representing 27% of exports and 32% of imports. The dynamics of external trade in this group showed a gradual slowdown in the last few years. The volume of exports was up at an outstandingly high rate, by 16% in 2006, after which the dynamics declined to 8.2% in 2007 and to 4.0% in 2008. A similar trend was observed in imports as well, where the volume growth was equivalent between 2006 and 2008 with 12%, 8.9% and 2.8%, respectively. Medical and pharmaceutical products have represented a rising share – 10–12% already in 2008 – in exports and imports of this main commodity group. Their exports and imports saw two-digit expansion rates in 2007 and in 2008 as a whole (even in the last quarter of the year), reaching outstanding levels in a few months. In addition to medical products the

above-average rise of rubber product exports was also a driving factor of the increase. At the same time in exports and imports of iron and steel – also representing a significant proportion of trade, and more than doubling in the past five years – the growth was considerable only until September 2008, and a decrease the growth rate month by month has already been recorded in the last quarter of the year due to the recession apparent also in steel industry.

Food, beverages and tobacco products had a share of 6.7% in exports and 4.6% in imports in 2008. The volume of their exports grew at an outstandingly high rate, by 17% in 2007, which fell to 2% by 2008. In line with the trend of the previous years the increase of imports (7.1%) exceeded that of exports with the exception of 2007. The key role in the change of exports was played by the volume change of cereal exports: while in the first eight months of 2008 the volume of our exports fell considerably compared to the high base level of exports in 2007, growth followed – though paralleled by decreasing cereal prices – in the last four months of the year. However, exports in 2008 were even so 1 million tons less (equivalent with 6.6 million tons) than in the previous year, though the volume growth was more than two-fold in comparison with the year of our EU accession. On the import side decisive increases were measured in the year as a whole in imports of meat and meat preparations (24%) and sugars and sugar preparations (88%) – the latter category representing lower weight –, while an expansion in case of vegetables and fruits, one of the largest groups of the import volume, was registered only in the first half of the year. The volume growth in imports of dairy products and birds' eggs, showing significant increases in former years, stopped in 2008, and a trend of stagnation or decrease was recorded in the year as a whole.

After standing in 2006 at the level of the previous year, imports of **fuels and electric energy** were down by 1.7% the next year, and expanded – at the same time as the import price level rose by over 30% – by 8% in 2008. This way its share reached 13% of imports. Though there was a continuous expansion in imports of petroleum, petroleum products and related materials, accounting for nearly the half of fuel

and electric energy imports, in the first half of 2008, the volume decreased by two digits (10–20%) from August. Natural gas imports grew almost all over the year – primarily owing to the replacement of the considerably reduced gas stocks, and a moderate decline occurred only in November–December. Exports of fuels and electric energy were up to an outstanding extent, by 31% in 2007, which was followed by a further increase (10%) in 2008. The deficit of the energy balance grew by nearly 2 billion euros in 2008, in which both the volume increase and the price level rise played a part, and it exceeded EUR 6.6 billion.

In the past few years there was an expansion in trade in **raw materials**, the smallest main commodity group, representing approximately 2% of each side of the trade. The volume of exports grew by 3% in 2007 and by 8.2% in 2008. The dynamics of imports remained higher than those of exports all over the period. In 2007 and 2008 volume expansions of 7% and 10%, respectively, were measured.

The export **forint price level** of external trade was down by 4.5% in 2007, which was followed by a small augmentation (0.4%) in 2008. The forint price level of imports had a similar pattern to that of exports: in 2007 a drop of 4.4% was registered, as opposed to a rise of 2.1% last year. The change occurred in the trend of the exchange rate: the forint appreciated against the major currencies by an annual average of about 6% in 2007, and was worth 1% more in 2008 than a year earlier. Taking into account the change of the exchange rate a slowly rising trend of the foreign exchange price level was observed.

Because of the practically identical price changes on the two sides of turnover the **terms of trade** were practically unchanged in 2007. The gap between the two prices widened again in 2008, as a result of which the terms of trade deteriorated by 1.7%.

According to the **unit value indices** released by Eurostat the terms of trade improved by approximately 1% in the European Union as a whole (EU-27) in 2007, at the same time as export and import price levels were up by 1–2%. In 2008 the rise of import and export price levels became more dynamic again, and since the price level of imports rose at a

significantly higher rate than that of exports the terms of trade deteriorated by 5.5% that year.

External trade in services – in exports corresponding to 17% of trade in goods and to a one percentage point higher proportion in imports – increased in both directions at a lower pace in 2008 than in the previous year. The value of exports and imports of services expressed in euros was 6.3% and 9.8% higher, respectively, than in 2007. The amount of services exports – as opposed to trade in goods – exceeded that of imports year by year. The surplus of the balance of external trade in services went on decreasing from 2006: in 2008 the surplus equalled about EUR 1 billion, which was 319 million euros less than one year before.

68% of exports and 64% of imports of services were realized **in the European Union** in 2008. Within exports old member states accounted for 55% and new ones for 14%, while the corresponding shares in case of imports were 54% and 11%, respectively. **In trade with countries outside the EU** the group of European countries had the highest share in Hungary's export turnover, followed by Asian and American countries. The structure of extra-EU imports by groups of countries considerably differed from that of exports: American countries were at the top of the rankings here, overtaking European countries outside the EU and Asian countries.

General government and its subsystems*

The **balance of the general government** – in compliance with the uniform **accrual** requirements (ESA '95) of the EU, as laid down in the Maastricht Treaty – showed a deficit of 3.4% of the GDP in 2008. The indicator was one and a half percentage points more favourable than a year before, and has been the lowest since 2000. In the European Union as a whole a deficit of 2.3% was recorded in 2008, which was one and a half percentage points higher than one year earlier, and was the least favourable datum in the last three years at the same time. Measures taken to boost the economy consistent with the global economic

crisis increased expenditures, and revenues somewhat diminished as a percentage of GDP compared to the previous year, which both contributed to the balance becoming less favourable in the large majority of the member states. The most significant deterioration was registered in Ireland, where the balance that had been in surplus in the former years turned into a deficit of 7.1%, while the deficit more than doubled in the United Kingdom. The highest rate of improvement was observed in Hungary among the member states. However, when evaluating this it should be considered that the ratio of deficit to GDP was highest here in 2007, the base year of the comparison.

Compiled on the same accrual basis, the general government's **gross debt** as a proportion of the gross domestic product also increased in the EU: the 61.5% rate was 2.8 percentage points higher than the value – the lowest for many years – in the previous year. The gross debt of the general government in Hungary, expressed as a proportion of GDP, rose continuously from 2002 to 2007, essentially stagnated in 2007, and increased at a higher pace (by 7.2 percentage points) in 2008 than earlier on. At the end of 2008 the debt accounted for 73.0% of the gross domestic product, which has been the highest value since 1996. The debt-to-GDP ratio exceeded the 60% value, set by the Maastricht Treaty, in nine of the member states of the European Union; Italy had the largest debt stock (106%).

The consolidated **cash-based** deficit of the general government of Hungary more than doubled from 2005 to 2006 to reach HUF 2.2 trillion. In 2007 a significant decline followed, the deficit amounting to HUF 1.4 trillion. According to preliminary data the consolidated deficit of the general government – without local governments – was HUF 907 billion in 2008, 393 billion less than in the previous year.

Out of the sub-systems the **balance of the central government** showed a deficit of HUF 862 billion in 2008. Thus the deficit was down by more than half a trillion forints in 2008 as well, similarly to the previous year, but the total amount of improvements in these two years still represented less than four fifths of the deterioration registered for 2006.

* The source of data is the Ministry of Finance, the National Bank of Hungary, Eurostat and HCSO-calculations.

Revenues of the central government – on cash-basis – expanded by 8% at current prices in 2008, and rose to HUF 8.2 trillion. The growth rate was essentially the same as in the previous year, and significantly exceeded that which occurred two years before (1.6%). The largest part, 37% of revenues was represented by taxes on consumption in 2008 as well, the value of which – along with stagnating consumption and decreasing retail sales – increased by 5% over a year, a somewhat lower pace than the average. Payments of households went up to a lower extent than the growth rate in 2007 but at a higher rate than the average, by 11% in 2008. Their share within the revenues of the central government surpassed 26%.

Similarly to previous years personal income tax payments accounted for more than nine tenths of revenues from households. The revenues of central government institutions and chapter-administered estimates came to approximately HUF 1.3 trillion in 2008, the same amount as in the previous two years. Payments of economic units (some HUF 1.2 trillion) were equivalent to 14% of the revenues. Their payments expanded by 5%, a considerably lower pace than in the previous two years (the growth was 12% in 2007 and 17% in 2006). The corporate tax, representing over four tenths of the payments, contracted by 5% following 9% rises in each of the previous two years. Payments from sub-systems of the general government amounted to HUF 255 billion, about 30% more than in 2007.

Expenditures of the central government equalled HUF 9.0 trillion, essentially the same amount as in the previous two years. (In 2006 expenditures were up by a fifth.) 44% of expenditures, or HUF 4.0 trillion was represented by the money use of government institutions and chapter-administered estimates. This expenditure item – following a growth in the previous years – was down by approximately 6%. Within this, expenditures of government institutions and the money use of special chapter-administered estimates both decreased: the former by 1.3% and the latter by 11%. The support provided to the sub-systems of the general government expanded by 6% in 2008, amounting to HUF 2.3 trillion. Over six tenths of this expendi-

ture item was accounted for by support to local governments, which grew by 5% over a year. The amount of guarantees and contributions provided to social security funds – following a considerable decrease in 2007 – augmented by 7%. Expenditures on debt service, equivalent with an eighth of the expenditure side of central government, grew by 15% in 2008. Owing to some decrease of revenues related to debt service the net debt service (HUF 1061 billion) rose at a slightly higher rate, by 17%. The 686 billion forints paid as family benefits and social transfers was essentially equal to what was registered in the previous year. Individual and normative support amounted to HUF 203 billion, 3% more than in 2007. Following a rise of 2% in 2007 housing grants diminished in 2008 again and very significantly this time, due to which their amount was the lowest in the last five years. The amount of consumer price subsidies declined as well; the HUF 108 billion spent on this purpose has been the lowest since 2005. In contrast, the amount of the Hungarian contribution to the EU budget in 2008 (HUF 211 billion) exceeded the values recorded in the previous three years, ranging from HUF 185 billion to HUF 190 billion.

The **gross debt of the central government** came to HUF 18.1 trillion at the end of 2008, 16% more than a year earlier. Within the HUF 2.5 trillion increase of the debt over one year a source of HUF 1.0 trillion served actual financing purposes, while one and a half trillion forints were placed as foreign exchange deposits at the National Bank of Hungary. (The total of the loan received from the International Monetary Fund, and the half of what was granted by the European Commission were deposited at the bank of issue.) Due to the international loan package denominated in foreign currencies the proportion of the **foreign exchange debt** at the end of December (37%) was about 9 percentage points higher than a year before. (Net foreign exchange debt actually indicates the exchange rate risk, i.e. is lowered with foreign exchange deposits. Its share of total debt was 32% at the end of December.) The value of government securities issued in foreign exchanges (HUF 4.2 trillion) was up by 17% over a year, which also played a role in the growing proportion of the foreign exchange debt. The **HUF debt**, taking up more than six tenths of

the debt, consisted almost solely of government securities; the role of loans was not decisive. The stock of government securities issued in forints was worth HUF 11.0 trillion at the end of 2008, 22% of which was owned by foreigners. The duration of foreign-owned government securities issued in HUF was 4.3 years at the end of 2008, while their stock went down from HUF 3.2 trillion to HUF 2.5 trillion during one year.

Social security funds had a deficit in 2008; the cash-based deficit amounted to HUF 73 billion, while the deficit calculated exclusively as the difference between the own revenues and expenditures equalled HUF 68 billion. The total amount of the deficit was generated in the Pension Insurance Fund, the revenues and expenditures of the Health Insurance Fund were equal in 2008. The balance of the sub-system showed deficits of about HUF 450 billion both in 2004 and in the subsequent year, which was cut to HUF 130 billion in 2006 and turned into a surplus of some HUF 30 billion in 2007. Thus the deterioration of the balance in 2008 followed significantly improving trends in the previous two years.

Revenues of social security funds – after growth rates of approximately 20% in 2006 and 2007 – stopped to increase further in 2008. Their value was HUF 4.3 trillion, as in the previous year. Over three quarters of the sub-system's revenues in 2008 were represented by charges and contributions. The amount of contributions from the central government reached HUF 878 billion.

Expenditures of social security funds increased by 1.8% in 2008, their value approached HUF 4.4 trillion. Two thirds of the expenditure side was accounted for by pensions, the value of which was 11% higher than one year before. More than HUF 1.1 trillion was spent on provisions in kind, the other considerable expenditure item of the sub-system, which exceeded by 4% the level recorded in 2007. The sub-system spent HUF 233 billion on money provisions, 7% more than in the previous year.

The cash-based deficit of **local governments** decreased in the past few years: the deficit in 2008 (HUF 26 billion) was equal to about the half of what was observed a year earlier, which in turn was more than 100 billion less than in 2006. In 2008 about three fifths of the revenues of HUF 3.5 trillion were taken up by own revenues, ceded personal income tax revenues amounted to approximately HUF 560 billion, 12% more than in the previous year, while the amount of state subsidies did not essentially change in 2008 either.

Extra-budgetary-funds had a surplus of HUF 28 billion in 2008, which was 35 billion forints less than in the previous year, and the lowest surplus in the last four years at the same time.

As regards **income centralisation and** the rate of **state redistribution** in Hungary there is both disequilibrium and a high expenditure level compared to the level of development of the country. At the same time as the redistribution level in the years following the turn of the millennium was high, ranging from 44% to 54%, the revenues of the general government as a proportion of GDP varied between 40% and 49%, producing differences of about 10 percentage points in a few cases.

In 2008 the **final consumption expenditure of the general government** – which contains social transfers in kind and social benefits provided by the government, and collective (government) consumption – accounted for 21.5% of the gross domestic product. This value is 1 percentage point higher than the EU average, and exceeds to an even higher extent that of the newly acceded countries that have similar levels of development to Hungary's, and for which the value of the indicator is usually lower than 20%. Among member states of the European Union the highest rates were measured in Sweden and Denmark (26% each).

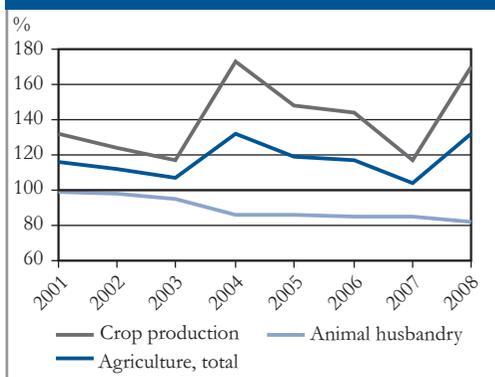
Performance of branches

Agriculture

After a decrease since 2005 the volume of **gross production** in agriculture in 2008 exceeded significantly, by 27% the level observed in the previous year, which was very low because of drought and frost damage. Similarly outstanding agricultural production as in the previous year has only occurred in two years since 1990: in 1991 and 2004. After a 24% fall of the **gross value added** by the branch in 2007 an extraordinary, about 1.5-fold expansion was recorded in 2008 at the same time as the performance of the other goods-producing branches and services decreased, so its share in national production rose to 4.5%.

The gross production value of crop products was up by 48% in 2004, and fell by altogether 32% in the subsequent three years. In 2008 a 45% expansion followed as compared with the low base. This high-rate growth was primarily due to the volume increase of cereals and fruits by over 70%. The decline since 2000 in the gross production value of animal husbandry continued in the previous year, too, at a pace of 3.1%.

Figure 36: Index of gross production in agriculture (2000=100)



In **crop production** on arable land the decrease of the sowing area of cereals, as measured in the

last few years, did not continue. In 2008 16.9 million tons of cereals were harvested – from a 4.7% larger area (2.9 million hectares) than in the previous year–, three quarters more than a year before, and slightly above even the record production observed in 2004. As a consequence of the favourable weather there was a considerable rise in the yield and production of all cereals. Out of ear cereals 5.7 million tons of wheat was produced on a hardly larger area in 2008 than in the previous year, 1.7 million tons (42%) more than one year earlier. (The domestic use of wheat equalled 2.7 million tons in 2007.) The production of 114 thousand tons of rye, 1.5 million tons of barley and 183 thousand tons of oats was over 40% higher each than in the previous year. 509 thousand tons of triticale was harvested, 34% more than in 2007. The production of more than 9 million tons of maize was more than twice as much as in the previous year, and approximated the record production in 2005. (In 2007 the domestic use of maize was 3.6 million tons.)

To store the production in 2008 a cereal-storing capacity extended to 19 million tons was available. There was a high demand for storing, though hardly any intervention sale occurred until the end of the year.

According to preliminary data, 315 million tons of cereals – one fifth more than in the previous year – were harvested on 60 million hectares, a 5% larger area than in 2007, in the 27 member states of the EU in 2008. The level of production rose almost in every member state, though higher rates than Hungary's were recorded only in Bulgaria and Romania, also hit by a serious drought in 2007. As cereal production was rich on a global scale as well, producer prices – especially those of maize – decreased. Over 5% of the EU's cereal production was produced in Hungary, which was 1.3 percentage points more than in 2007.

In 2008 the harvested area of sugar beet was one fifth, while its production of 532 thousand tons hardly a third of what was recorded a year earlier. The lowering of the sugar quota by the EU led to the fall

of price and the reduction of production of sugar beet in Hungary, too. Farms harvested 38% more oil seeds from an 8% larger area in 2008 than in 2007. Out of these 1.5 million tons of sunflower were produced, which was 41% higher than a year earlier. The demand for rape remained high: its harvested area grew by 11% over a year, and by 88% (117 thousand hectares) compared to the average of years 2003–2007, while its production of 656 thousand tons more than doubled as against the average of the previous five years, and rose by 32% compared to the previous year.

646 thousand tons of potatoes were produced – on the same size of area as in 2007 –, 15% more than a year before.

Table 16: Production of major crops

| Crops | 2006 | 2007 | 2008 | |
|------------|---------------|-------|-------|--------------------------|
| | thousand tons | | | As a percentage of EU-27 |
| Wheat | 4,376 | 3,987 | 5,654 | 3.8 |
| Maize | 8,282 | 4,027 | 8,963 | 14.3 |
| Barley | 1,075 | 1,018 | 1,478 | 2.6 |
| Sugar beet | 2,454 | 1,693 | 532 | 0.1 |
| Sunflower | 1,181 | 1,060 | 1,492 | 21.5 |
| Rape | 338 | 496 | 656 | 3.6 |

According to preliminary data 1.7 million tons of vegetables were harvested in 2008, about the same quantity as in the previous year, and some 840 thousand tons of fruits, more than twice as much as one year earlier. The grape production of 620 thousand tons was 15% higher than in 2007.

According to data of the census held on 1 December 2008 **livestock** reached approximately the same level as a year before, with a relatively marked decline in pig and turkey stocks, and a growth in the number of geese and ducks. Private farmers farmed 32% of cattle, 33% of pigs, 46% of chickens, hens and cocks and 86% of sheep.

The number of cattle came to a standstill in the last three years following decades of decrease, farms kept 701 thousand cattle, of which 324 thousand cows in December 2008, hardly less than a year earlier.

The pig stock decreased further in 2008, the stock of 3.4 million was 13% less than one year before. The stock of breeding sows was down at a similar rate, to 230 thousand. The acceleration of the decline of the stock was largely influenced by the price rise of animal feedstuffs following the weak production of cereals in 2007. Agricultural enterprises and private farmers reduced the number of pigs at almost identical rates, by 13% and 12%, respectively. The number of small-scale producers keeping pigs and the share of their stock declined permanently in the past two decades.

The sheep stock essentially stagnated after two years of decrease, to equal 1.2 millions on 1 December 2008, within which the number of ewes did not reach one million. While agricultural enterprises reduced their sheep stock by 3%, private farmers increased their own by 8 thousand (1%).

39.7 million poultry were counted on 1 December, 1.4 million more than one year before. The stock of chickens, hens and cocks went up slightly, while goose and duck stocks considerably; it was only turkey of which less was kept than in the previous year.

The quantity of **slaughter animal production** hardly changed in the past few years, equalled 1.4 million tons in 2008 according to preliminary data, 18 thousand tons (1%) less than in the previous year (when it grew by 24 thousand tons). Among major animals only the production of slaughter poultry was higher than a year earlier. The production of slaughter pigs, representing 45% of slaughter animal production, fell by 4% in 2008 after the 4.9% growth in 2007. The production of slaughter poultry had a similar share to that of pigs and fluctuated year by year, last year increasing by 2.1%. Approximately identical volumes, 20–21 thousand tons of slaughter sheep have been produced for years, and the quantity of slaughter cattle did not change considerably either, varying between 84 and 89 thousand tons in the last few years.

Similarly to the previous year farms produced 1.8 billion litres of cow's milk – representing the largest volume among **animal products** –, and 2.9 billion hen eggs, 1% more than one year before. The slow decrease of raw wool production observed since 2006 continued, the volume of 4,500 tons was 2.2% lower than in the previous year. A record quantity, 22,400 tons of honey

were collected in 2008, which was 40% more than a year earlier and also exceeded the quantity measured in 2003, the highest to date.

After a 22% increase in 2007 the **producer price level** of agricultural products was down by 3% in 2008. A higher, 5.4% price decrease was only recorded in 2004 during the decade, also due to the rich cereal production. Compared to the extremely high base observed for the previous year, the price of crop products declined by 15%, which was influenced by the 24% and 26% price decreases of cereals and fruits, respectively. The price of major arable crops usually decreased, of which that of maize at the highest rate, by 37%. However, the price of rape rose by 62%, which resulted in a price level of industrial crops 7.4% higher than in the previous year. After the relatively modest, 4.9% increase in 2007 the producer price of vegetables went up by 8% last year. Fruit prices fell by 26% because of the production surplus, out of which apple and sour cherry prices at the highest pace. The 14% price level rise of live animals and animal products was 10 percentage points higher than in 2007. It was the price of slaughter cattle that grew to the lowest extent, by 2.7% among live animals, while 14% and 17% more was paid to producers for slaughter poultry and slaughter pigs, respectively, than in 2007. Out of animal products the price of milk and hen eggs rose at similar rates as well, by 13% each.

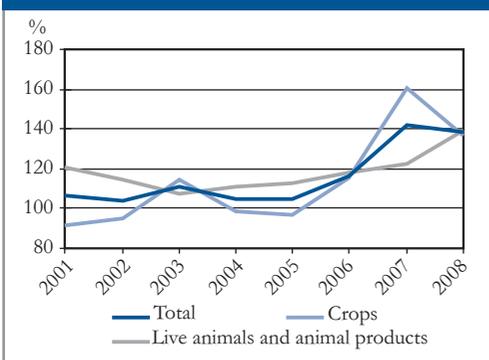
15%, slightly exceeding the 14% registered in 2007. Out of crop inputs the price of fertilizers increased at the highest rate, by 61%, while among animal husbandry inputs purchased animal feedstuffs cost 21% more than in 2007. Owing to the rise of input and the decrease of producer prices terms of trade in agriculture were 84.3%. Despite the deterioration of terms of trade in agriculture the expansion of production resulted in a considerable growth in profitability.

Industry

The restrictive measures that resulted in a reduction of economic growth had no detrimental effect on industrial output in 2007. In spite of a slight reduction in rate of growth, gross output was in excess of 8%. However, value added in this section increased at an accelerating rate, by 6.4%, the highest annual rate of increase since 2000.

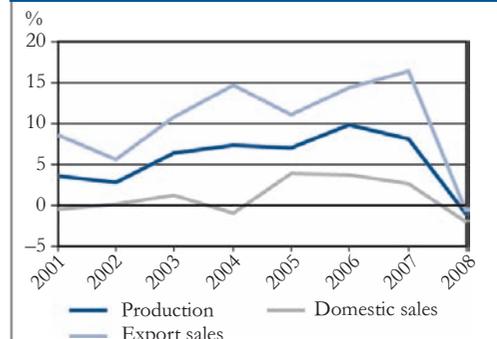
In 2007, the main driver in the 8.2% rise of gross industrial production was a 17% increase in export sales. In the beginning of 2008, the growth rate of the previous year continued, exceeding 8% as the average of the first four months. From May to September, a moderate monthly increase and decrease was seen in the production, however, in the last quarter a significant decrease of 12.5% occurred along with a deepening international downturn caused by the

Figure 37: Agricultural producer prices (2000=100)



The price level of agricultural inputs changed in the opposite direction to producer prices, and rose by

Figure 38: Changes in industrial production and sales (compared to the previous year)



financial and economic crisis. At an annual level, output volume was 1.1% below the high figure a year earlier. Changes in production were influenced by dynamics in both directions of sales: domestic sales decreased by 2%, foreign sales by 0.8%. (There were falls of 9 and 15%, respectively, in Q IV).

Out of the industrial branches manufacturing was affected by a decrease in output volume in 2008. Electricity, gas, steam and water supply, accounting for around 8% of industrial output, showed an increase of 3.3% in output, a rate approaching that of a year earlier. Mining accounted for a proportion of less than half per cent; its output was highly volatile: decrease by 17% in 2007 and increase by 39% last year.

Of the branches of the engineering industry the manufacture of electrical and optical equipment decreased by 3.2% in 2008 after an increase of more than 13% in volume in 2007, mainly as a result of a tightening in foreign orders along with a decline in domestic supplier orders. After a 13.8% year-on-year increase in volume in 2007 there was a 4.2% increase in the manufacture of machinery and equipment n.e.c. and a 1.2% increase in the manufacture of transport equipment. In Q4, decreases were seen in all three branches of the manufacture of machinery, most of all in the manufacture of transport equipment and in the manufacture of electrical and optical equipment (17%), first of all as a result of a tightening in export demand. Out of the branches of the manufacture of machinery, exports account for more than 90% of the sales of manufacture of electrical and optical equipment and of manufacture of transport equipment, while export sales account for nearly 70% of the total sales of manufacture of machinery and equipment n.e.c.. These three industries account for more than two thirds of industrial exports. In 2008, at the manufacture of machinery and equipment n.e.c. export sales increased at a lower rate (by 8.5%) than a year earlier. Export sales were flat in the manufacture of transport equipment, while in the manufacture of electrical and optical equipment 3.1% below than the high level a year earlier.

Of high-tech industries, the manufacture of office machinery and computers, and the manufacture of

radio, television and communication equipment and the manufacture of medical, precision and optical instruments apparatus accounted for nearly a fifth of industrial output and nearly a quarter of export sales. In the high-tech industries, the manufacture of radio, television and communication equipment and apparatus as the most important one rose by 19% in 2007, however, in 2008 it was 0.7% lower than the high figure a year earlier, as a result of a stagnation in export sales and a drop of more than 10% in domestic sales.

Of chemical industries, the manufacture of rubber and plastics products was 2.9% higher than a year earlier. It was able to increase its export sales, even compared to a high base year (with an increase of 30%), by more than 10%, but domestic sales were 5.4% below than a year earlier. At the same time, the manufacture of coke and refined petroleum products showed a decrease of 1.7% in output, while the manufacture of chemicals and chemical products decreased by 2.1%. There was a decrease in export sales in both cases, 5.8% at the manufacture of coke and refined petroleum products and 1.5% at the manufacture of chemicals and chemical products. In the former industry, domestic sales grew by 4.4%, while in the latter decreased by 3.8%.

The manufacture of basic metals and fabricated metal products, except machinery and equipment slowed down in 2007 after a dynamic expansion in 2006 and decreased by 1% in 2008. , There was a slowdown in 2007, in the background of which there was an 8.2% fall in domestic sales, although the growth rate of export sales decelerated, too. In 2008, there was a further decrease of 7.2% in domestic sales, while a higher than 10% expansion rate of export sales in previous years decreased to 3.9%.

Output in the manufacture of food products was 4% lower in 2007 after a 1.3% increase in 2006 and 7.7% lower in 2008 compared to a year earlier. This tendency came from domestic sales with a large proportion that have decreased annually since 2006 as well as from a volatile performance in export sales that account for a lesser proportion. In 2006, there was a decrease in demand in both directions of sales,

in 2007 domestic sales decreased further, while there was a 3.5% increase in foreign sales. In 2008, domestic sales were almost 10% and export sales 2.4% lower than a year earlier.

Out of branches with a lesser weight, the manufacture of textiles and textile products has decreased in volume year by year, which is in connection with the lessening demand in both directions of sales. There were record increases of 36% and 51% in 2006 and 2007, respectively, in the manufacture of leather and leather products, mainly as a result of export sales. In 2008, growth in output slowed down to 4.9% compared to a very high base, for the most part as a result of a drop in export orders. In the manufacture of wood products and paper products there was a 2.5% decrease in 2008 after a modest increase in 2007. In 2007, the manufacture of other non-metallic mineral products increased by 24%, while in 2008 it rose by 2%.

A minor change was seen in the **structure of industry** during the past two years. Machinery industries accounted for 49% of output in 2006 and in 2007, for 47% in 2008, mainly as a result of a decreasing proportion of the manufacture of electrical and optical equipment. Chemical industries have had a decreasing share for years, reaching 17.5% in 2008. The manufacture of food products was not able to maintain its earlier share in output, decreased below 10% in 2007–2008. Share of light industries in the output also declined, decreasing to 5.1% in 2008. In the manufacture of basic metals and fabricated metal products, after an increase in previous years, there was a slight reduction with a proportion of 7.7% in 2008.

Out of enterprise groups based on **employment size bands**, output in export-oriented large corporations, accounting for an overwhelming proportion of output value, has increased at the highest rate for years. In 2008, output in this enterprise group was 2.5% lower than a year earlier, mainly as a result of a lessening export demand. In domestic sales their share decreased from 54% last year to 46%, in export sales from 85 to 83%. Output in enterprises employing 50–249 people was 3.3% higher than a year earlier, mainly as a result of a nearly

10% increase in domestic sales, though they were able to expand foreign sales by 1.3%, too. Output in enterprises employing 5–49 people, increased, though at a modest rate (by 0.5%), too.

Along with this reduction in industrial output there was a 0.2% increase in employment size at enterprises employing at least 5 people, **industrial output per employee** was 1.5 percent lower in volume than a year earlier (There was a 9.2% productivity growth in 2007).

In 2007, industrial output grew in volume, though at different rates, but in all **regions**. In 2008, except for Southern Transdanubia, there were decreases in all regions. The highest fall (of 6.4%) was in Central Transdanubia, which showed production increases of 15–20% in the previous years, but there were decreases of around 5% in the industrial output in Northern Hungary and Southern Great Plain, too.

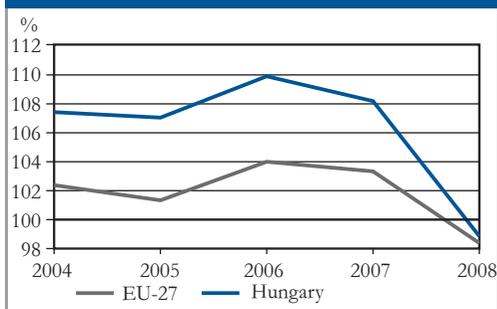
Table 17: Changes in the industrial production by region

| (previous year = 100,0) | | | |
|-------------------------|-------|-------|-------|
| Region | 2006 | 2007 | 2008 |
| Central Hungary | 98.7 | 105.2 | 99.7 |
| Central Transdanubia | 119.9 | 114.6 | 93.6 |
| Western Transdanubia | 106.9 | 106.6 | 99.8 |
| Southern Transdanubia | 97.7 | 108.8 | 100.8 |
| Northern Hungary | 114.8 | 101.5 | 94.5 |
| Northern Great Plain | 113.8 | 105.7 | 97.6 |
| Southern Great Plain | 104.0 | 102.4 | 94.8 |

Economic problems affecting numerous countries in the world in 2008, among others the European Union, were tangible in the industrial production as well. In 2008 industrial production in the EU was 1.6% lower than the level a year earlier, after expansions of 4% and 3.3% in 2006 and 2007, respectively – along with a negative trend that strengthened over the year.

In fifteen of the EU member states output was 0.5–6.8% lower than a year earlier. In Germany it stagnated, in the other member states it was 0.2–3.4% higher. An even greater fall was observed in 12 EU member states than the 1.1% decrease in output in our country, the biggest falls were recorded in the

Figure 39: Industrial output in the EU-27 and Hungary
(previous year = 100)

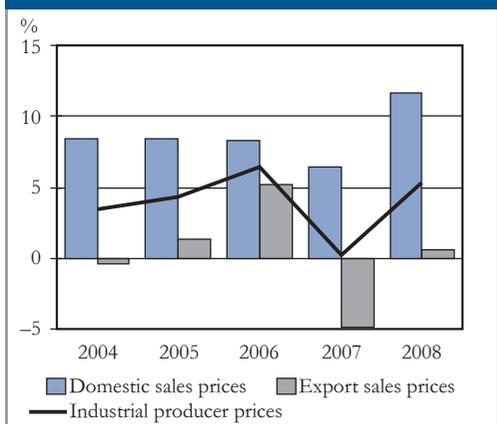


industry of Spain (6.8%), of Estonia (6.2%) as well as of Latvia (6.1%).

In the United States of America and in Japan there was a slowdown in output growth in 2007 compared with a year earlier and it remained below the average of the European Union. In 2008, there were decreases of 1.8% and 3.2% in output in the United States of America and in Japan, respectively.

The **industrial producer price level** results from domestic and export sales prices in industry. In domestic sales, prices are basically determined by factors in the product market and from time to time official measures can play a role, too. In exports, prices denominated in HUF are strongly influenced

Figure 40: Changes in industrial producer prices
(compared to the previous year)



by changes in the HUF exchange rate as well as by market impacts. Recently changes in prices have been characterized by a rise in domestic sales prices as well as by volatile HUF prices in export sales.

From 2004 to 2006, the **prices of domestic industrial sales** increased at nearly the same rate (8.4%), in 2007 – among others as a result of a quite large decrease in import prices – a significant rate reduction was seen (6.4%), followed by a considerable acceleration in 2008: prices increased by 11.6%. Changes in domestic prices are strongly influenced by the electricity, gas, steam and water supply, which accounts for a third of sales, the prices of which have been increasing at a higher than average rate for years. In this branch a 17.7% increase was recorded in prices last year in a way that in Q IV – contrary to manufacturing – its rate of increase has not slowed down but accelerated as a result of the 3.1% price increase enforced in October 2008: a 16% price increase in Q I-III was followed by a 23% price increase in the period of October–December. Out of further branches that account for a larger proportion of domestic sales, prices in the manufacture of food products, beverages and tobacco have risen at an increasing rate for years, last year at over 10%. In 2007, prices in the manufacture of refined petroleum products slightly decreased – after a 20% increase a year earlier –, however, last year these increased again at a very high rate of around 25%, although in December these were 10% below the level a year earlier. A nearly 10% price increase was also recorded in the manufacture of basic metals and fabricated metal products, while increases of 1.6–6.3% were seen in the other branches. There was a 1.7% price reduction in the manufacture of textiles and textile products.

In 2006, **export sales prices** (along with a significant weakening of the HUF) increased by 5.2%, the next year they decreased by 4.8% (while there was a nearly 6% appreciation of the HUF), last year an 0.6% increase was recorded along with a slightly changing exchange rate. Within this a high price rise was seen in the manufacture of refined petroleum products and in the manufacture of food products, beverages and tobacco: 28 and 14%, respectively. Prices decreased

in four manufacturing branches and increased by 1.2%–4.6% in the other branches. The highest price decrease of 2.5% was seen in the manufacture of electrical and optical equipment, which accounts for over two thirds of export sales.

As the average of the 27 member states of the **European Union** industrial prices were 2.2% higher in 2007 and 5.9% higher last year than a year earlier. In 2008, the highest rises in the producer price level were seen in Lithuania, Romania and the United Kingdom (by 18, 15 and 14% respectively), while a decrease was recorded only in Ireland (1.4%).

Construction

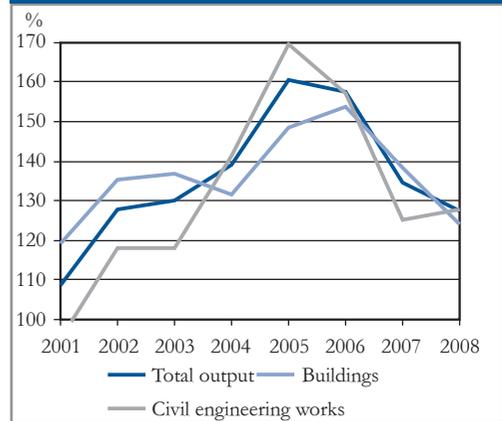
Construction businesses have accounted for more than four fifths of construction output for years. These businesses, at current prices, have been in excess of HUF 2 trillion of output value year by year since 2005. In 2008, gross value added in the construction industry amounted to slightly more than HUF 1 trillion, a share of 4.5%. This proportion is lower than a year earlier and lower than the average of the EU, too.

There was a continuous growth in this industry from the turn of the millennium to 2005, followed by decrease from 2006. After a slight drop of 1.5% in 2006, there were decreases in output of 15% and 6.3% in 2007 and 2008, respectively, compared to a year earlier. Changes in dynamics were influenced to a great extent by road and utility constructions ordered by the state. In the beginning of this period, these were stimulating, while in the last years they affected the output moderately.

In 2006, in the division of construction of buildings – along with a downturn in dwelling construction and an expansion in the construction of industrial, trade and office buildings – there was a 3.8% increase in volume. There was a 7.3% decrease in the division of civil engineering, as a result of a reduction in the growth rate of road construction, accounting for a fourth of construction output. In 2007, in both main groups of constructions there was a fall in the volume of out-

put, as for buildings by 10%, as for civil engineering works by 21%. In 2008, there was a decline in the division of construction of buildings, in terms of its rate similar to a year earlier, but there was a 2.5% rise in civil engineering. This resulted from the high-value contracts concluded over the year for the improvement of transport infrastructure, as a consequence of this there were month-on-month increases in the rate of output from August.

Figure 41: Output volume of construction (2000=100)



In 2008, in the construction industry, the producer price index rose by 5.8% on average. In the first three quarters prices were growing at an accelerating rate, while in the fourth quarter there was a deceleration. Concerning the construction of structurally complete buildings, the producer price index was around average. Prices increased the most in building installation, while the price rise in final construction was below average.

After a two-year growth the number of those employed in the construction industry showed a significant drop of 21 thousand, more than 6% in 2008, thus their number accounted for 8% of all employed persons.

As the average of the 27 member states of the European Union – according to indices adjusted for working days – out of the last five years the highest increase (3.8%) in output in the construction industry

took place in 2006, while in 2007 a lower increase (2.6%) occurred, however, in 2008, there was a 2.9% decrease in output on a year earlier.

In the last years, the Baltic States, Romania, Bulgaria as well as Slovenia showed the sharpest rise in construction industry. In 2008, out of the countries providing data there was an increase in volume in ten, within which there were rises of over 10% in Romania, Slovenia and in Slovakia, while there was a decrease in the other 13 countries. The highest fall was observed in Spain (16%) and in Estonia (12%).

Transport

In 2008, there was a 0.9% reduction in **goods transport** performance measured in freight-ton kilometres compared to 2007. This fall followed the increasing trend of the past years since there were increases of around 15% and 11% in 2006 and in 2007 respectively. The reduction in performance in 2008 took place along with a 3.8% rise in volume of transported goods, so the average length of haul declined to 155 kilometres. In 2008, the expansion came to a standstill in international transport: it accounted for a proportion of 71%, the same as a year earlier. In terms of proportion there was no change in the distribution of domestic and international transport along with a (1%) decrease in performance. International transport accounted for a larger share of the performance measured in freight-ton kilometres, while domestic transport accounted for a larger proportion of the volume of transported goods, which – breaking the decreasing trend over past years – even increased slightly in 2008.

Of transport industries, **road transport** showed essentially the same performance in 2008 as a year earlier. This is a significant change compared to the earlier period, when there was a one-fifth increase in performance annually on the average. So in 2008 road transport accounted for essentially the same proportion of two thirds as a year earlier. In 2008, there was no change in performance measured in freight-ton kilometres along with a 6% increase in transport

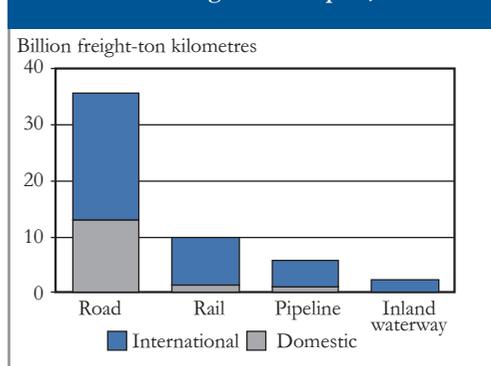
volume, i.e. the average length of haul (138 kilometres) was lower than a year earlier.

In 2008, **rail transport** – based on data measured in freight-ton kilometres – accounted for a proportion of 18%. Within this, it played a more significant role (22%) in international transport than domestically (9%). There was a decrease at a rapid rate between 2004 and 2007 in the significance of rail transport, a trend that – not in a small part as a result of a decrease in the rate of road transport – slightly slowed down last year. In 2007, there was essentially no change in the performance of the fixed line mode of goods transport, while in 2008 it decreased at the highest rate of 3.2% out of the transport branches. This fall mainly results from a reduction in the volume of international goods transport, since the performance of domestic goods transport – after big falls seen in past years – showed an increase.

Pipeline transport, which accounts for more than a tenth of the performance of goods transport, showed a 2% decrease in performance measured in freight-ton kilometres in 2008, while there was a 1% reduction in 2007 and a 3% increase in performance in the year before that.

Inland waterway transport, accounting for only 4% of the transport performance showed a 2% increase in performance in 2008 after a dynamic rise in the preceding year. Nearly two thirds is made up by transit traffic, more than a fifth is export freight

Figure 42: Performance of transport branches in goods transport, 2008



forwarding, while imports through our ports account for 14%. Based on these, domestic traffic accounts for only some tenths of a per cent, which is significantly lower than the average of the European Union (25% in 2007). Of total traffic, ships under the Hungarian flag account for a proportion of 10%, which was lower than the performance of the Ukrainian, Austrian, Romanian and Bulgarian ships.

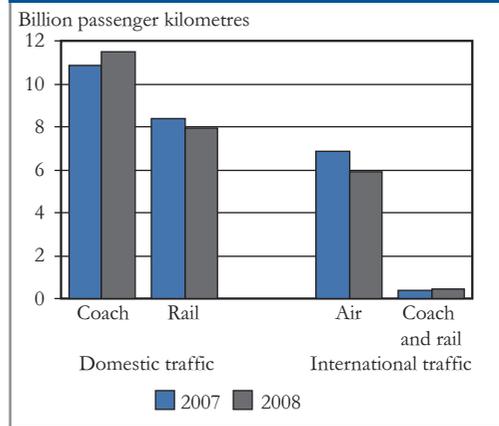
There was a total of 62.7 thousand tons of freight and mail at the **Budapest-Ferihegy Airport**. Incoming items accounted for more than six tenths of this volume, while the outgoing ones for nearly four tenths, whose volume was 5 and 13% lower than a year earlier.

In the **European Union** road transport accounted for around three quarters of the total performance of land transport. In the majority of the Central and Eastern European countries, similarly to our country, road transport plays a lesser role in goods transport than in the EU as a whole, though in the years after 2000 there was a clear increase in the significance of this mode of transport, regarded as more energy-intensive and environmentally detrimental than the others.

In 2008, in **passenger transport**, the **interurban passenger transport** showed a 3% year-on-year decrease in the performance measured in passenger-kilometres. The reduction in performance took place along with a similar increase in the number of passengers, i.e. the decrease in performance resulted from shortening length of travel. Coaches accounted for 46% of the performance, railways for nearly a third and aircrafts for more than a fifth. Out of the 701 million domestic passengers, nearly four fifths (551 million people) travelled by coach and between domestic localities. In 2008, at the Budapest-Ferihegy Airport there was a 2% decrease in passenger traffic to 8.4 million people compared to a year earlier. So the number of passengers, following a 24% increase in 2005 as well as 4–4% increases in 2006 and 2007, showed a reduction for the first time over the last years. Commercial flights made up nearly the whole of the traffic at Ferihegy, within this, the number of passengers was only in the order of millions in case

of Germany and the United Kingdom (1.4 and 1.1 million, respectively).

Figure 43: Performance of interurban passenger transport by main mode of passenger transport



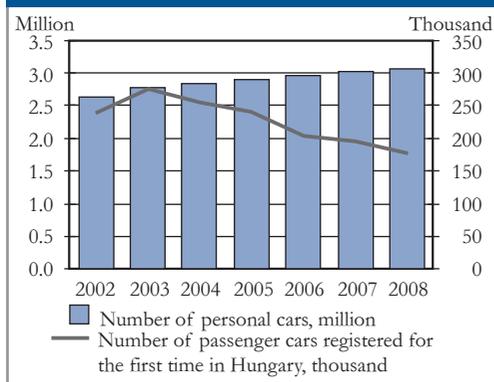
In 2008, **local passenger transport** continued to decrease, but there was a smaller drop (1.5%) in the number of passengers than formerly. Only the number of those travelling by underground and bus went up, though in a relatively significant way: by 5%. Buses showed the sharpest fall of 3%, while there were decreases of 1–1% in the number of those travelling by tram and trolleybus and a 2% reduction at the number of those using suburban train services. Around six tenth of passengers used buses, nearly a fifth of them trams, while 14% of them metro or underground to travel. Suburban trains and trolleybuses jointly accounted for the remaining 8% in a way that the performance of the latter transport mode accounted for around a half of that of the trolleybuses. In 2008, not only the number of passengers carried but that of passenger kilometres declined, too (1%). Based on this indicator, buses accounted for a significant share of trips (64%) and around half of the national performance was realized in the capital city.

In the **European Union**, according to the latest available data on 2006, cars accounted for 82% of the **performance** measured in passenger-kilometres

in local and interurban passenger transport.⁶ Long-distance and local buses accounted for a half of the performance, railways for nearly two fifths, while trams and the underground for the remaining one tenth. Between 2000 and 2006, trams and the underground showed the highest growth of 9%, while local and long-distance buses the lowest increase of 2% in performance measured in passenger-kilometres. In most member states of the European Union road transport played a more significant role in passenger transport than in goods transport.

In 2008, there was a further increase in the stock of cars, the most important vehicles in **individual transport**, amounting to 3 million 55 thousand at the end of the year. At the same time it is important to note that the stock growth (43 thousand) in this year was the lowest in the last half decade. This reduction cannot be explained by an increase in unregistered cars, but with a further drop in registrations. In Hungary the number of passenger cars registered for the first time was 177 thousand in 2008, 10% less than a year earlier, the lowest figure since 2000.

Figure 44: Number of personal cars and registrations for the first time



In connection with the abovementioned facts, the declining trend in the average age of the stock stopped in 2007, then in the following year there was a slight increase by way of which at the end of 2008 the average

age of the personal car stock amounted to 10.4 years. Both in the year-end stock and in registrations for the first time in 2008 the Opel and Suzuki brands were the most frequent, while concerning the stock the Opel, concerning the registrations the Suzuki achieved the highest figure. According to the non-final data of the European Automobile Manufacturers' Association, in 2008 14 million 712 thousand new cars were registered in the **European Economic Area**, 7.8% less than a year earlier. This has been the sharpest fall since 1993. Considering changes in the numbers the most significant decrease was in Spain, where 454 thousand fewer cars were registered than a year earlier. Of the new member states, the sharpest fall of more than four tenths in the number of registrations was recorded in Latvia; at the same time in the Visegrád Countries – except for our country – there was an increase.

At the end of 2008, the national **public road network** was 31,363 km, 0.6% longer than a year earlier. Within this the length of the motorway network was 911 km, 53 km more than a year earlier and 342 km more than at the end of 2004. In the last four years the highest growth took place in 2006.

In 2008, the number of the **traffic accidents involving personal injury** continued to go down; a 2% decrease in 2007 was followed by a 7% drop last year. In 2008, there were 19,174 road accidents involving personal injury, in which 26,365 people suffered an injury. Around two thirds of all injured were slightly injured, more than a quarter were seriously injured; the number of deaths was 996 persons. Nearly half of deaths concerned innocent victims. Similarly to the previous year, there was a decrease in all three injury categories in 2008 as well, the number of fatalities went down at the highest rate of nearly a fifth. More than nine tenths of accidents were caused by the driver; inappropriate speed and not giving way are the most frequent causes. While travelling in a car there were 745 fatalities in 2008, out of them nearly three quarters were not wearing seat belts. Over the last three years the share of road accidents caused by drink-driving was the lowest in

⁶ The estimated indicator for Hungary is 60%.

2008, the 12% figure was two percentage points lower than in 2007.

Telecommunication, internet

In 2008, the significance of fixed line calls continued to decrease, while there was an expansion in mobile phoning. At the end of 2008, the number of **fixed lines** was 3.1 million, 5.5% fewer than at the end of the previous year and the rate of decrease accelerated, in spite of the fact that there was a gradual expansion in the availability of phoning through cable television networks (more than 8% of lines). There were 31 fixed lines per 100 inhabitants, while at the end of 2007 this rate was 33. Compared to the European Union⁷ this provision might be regarded as low: in 2007, it was below the EU average (47), at the same time – excluding Slovenia and Estonia – it was higher than in the other Central and East European countries. In the EU the highest figure was recorded in Germany, where there were 65 fixed lines per 100 inhabitants in the mentioned year.

18% of fixed lines was ISDN line; there was essentially no year-on-year change in their proportion in spite of a decrease in their number.

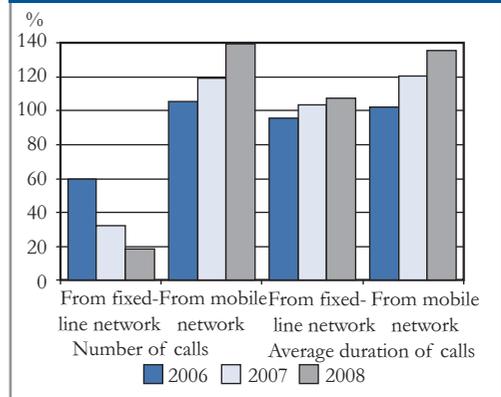
At the end of the year the number of **mobile phone subscriptions** amounted to 12.2 million. This was 11% more than in 2007, when there was a similar expansion in the number of subscriptions. The expansion in the use of mobile internet greatly contributed to this growth. Prepaid mobile subscriptions accounted for a larger part of subscriptions: their share was 61%, somewhat lower than in the preceding year. Based on infra-annual data⁸, the number of mobile subscriptions per 100 inhabitants in Hungary (117 at the end of September) was below the EU average (119).

The number of **fixed-line calls** – excluding internet calls – was 2 billion, 9% fewer than in 2007. This decrease was well above the reduction in the number of fixed lines. As a result of a contraction in modem internet and an expansion in broadband

connections there was a considerable drop in the number and duration of internet calls: these fell to 42 as well as 38% on a year earlier. Over a year the duration of calls decreased by 8% from 6.5 billion minutes to 6 billion, along with a similar decrease in the number of calls. The average duration of calls was 3.1 minutes, somewhat more than in 2007.

The number of **outgoing calls from mobile networks** was 7.8 billion, 8.4% more than in 2007. The duration of calls amounted to 15.8 billion minutes, 15% more than a year earlier, which was higher than the growth rate a year earlier. A call's length was 2 minutes on average, significantly shorter than in case of calls from fixed line networks. In-network calls accounted for a decisive proportion of 64% of the duration of calls initiated from mobile networks. The number of sms sent (short message service) was 1.9 billion, 5% more than a year earlier.

Figure 45: Index on the number and average duration of calls (2005=100)



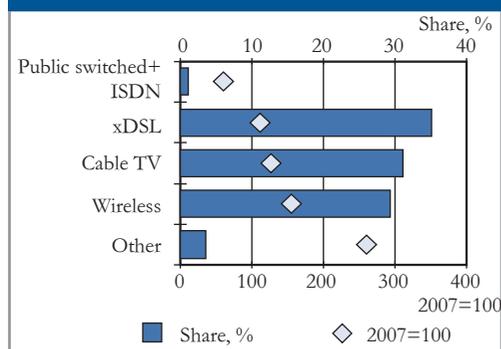
The number of **internet subscriptions** increased at a lower rate, by 27% amounting to 2.3 million at the end of 2008. Last year the wireless internet, within this the mobile internet, showed a dynamic expansion, although the growth rate seen in 2007 decreased somewhat. Meanwhile there was a 56% increase in wireless access, whose share rose by 5 percentage points

⁷ International Telecommunication Union (ITU), <http://www.itu.int>

⁸ Progress Report on the Single European Electronic Communications Market 2007 (14th Report). 2009. március 24.

to 29% on a year earlier. Of broadband access modes the number of cable network subscriptions increased at the highest rate, by 27% in 2008, xDSL subscriptions showed a 10% increase, their share amounting to two thirds of all subscriptions. (This is 5 percentage points less than a year earlier.) Public switched network and ISDN subscriptions as the smallest segment, showed a 60% fall in number over a year, against the previous years when subscriptions of the other category (e.g. leased line, local network) accounted for the smallest proportion of all subscriptions.

Figure 46: Index and distribution of the number of internet subscriptions



In 2008, 48% of all **households** had home **internet access**, a rise of 10 percentage points on a year earlier. 42% of households had broadband access, also a strong increase of 9 percentage points over a year. At the EU-27 level, 60% of households have internet, 49% broadband access. Over a year, we moved up from 23rd to 19–20th place, at the same time in case of the broadband access we slipped from 16th to 17th place. (Of the Visegrád countries, internet access is more widespread in Slovakia and Poland than in our country, however, Hungary has the highest broadband access in this region.)

The highest proportion (93–95%) of use of internet among **internet users** was communication and collecting information on products and services. At least half of them was characterised by online news and magazine reading as well as by browsing health information.

In Hungary 86% of non-financial **businesses** employing at least 10 persons had internet access, the same as a year earlier. Compared to the EU average of 93%, there was no change in our position as we were in the 25th place out of 27 (ahead of Bulgaria and Romania).

At the end of 2008, the number of **post offices** was 2,741 (2,744 in 2007), out of this 167 operated in Budapest and 758 in other towns. There was a slight decrease in the number of village post offices. The number of settlements provided with mobile post services was 1,122; in these settlements postal services can be accessed at a fixed time and place. On a year earlier there was a slight decline in the number of mails, amounting less than 900 million pieces. The number of parcels also dropped, hardly exceeding 1.6 million.

The wired distribution – **cable television** – network continued to develop. In 2007, more than 2.1 million homes (93% of them with a star-point solution) were connected, their share reaching 50% calculating with the number of homes at the end of the year. This service was concentrated to 58% of settlements. The development is indicated by the growth of potential capacity: the number of homes that can be passed (home-pass), grew from 3.5 to 3.8 million between 2006 and 2007. Along with this more and more companies offer phone and internet services, furthermore there is an expansion in digital cable television services. For packages offered through cable television networks, there was an average monthly fee of HUF 3,109 in 2007, 1.1% higher than a year earlier.

TV channels accounted for a **total broadcast time** of nearly 2.1 million hours, essentially the same as a year earlier, while radios had a broadcast time of more than 1.2 million hours along with a 1% increase.

Retail trade

An unbroken growth between 1998 and 2006 in the **retail trade and mail order network** was replaced by a reduction of 3% in 2007, which was followed by a decrease at a lower rate of 1.8% in 2008. According to Eurostat data – adjusted for calendar effects – on total

retail sales in the member states of the **European Union (EU-27)**, except for the first two months of 2008 as well as May, stagnation or monthly decreases of around 1% on the same month a year earlier were recorded. Last year annual sales were flat after an increase in 2007.

In our country, in the **retail sales of food, beverages and tobacco** – in connection with the lessening domestic demand – sales decreased in volume by 1.2% on a year earlier. Within this, food, beverage and tobacco sales in non-specialized stores that account for nine tenths of retail sales were 1.3% lower, while those in specialized stores – on the low base a year earlier – increased by half per cent.

There was a stronger fall in **retail sales of non-food products** just as in 2007: at that time sales decreased in volume by 4.5, in 2008 by a further 2.5% on a year earlier. In this category retail sales of furniture and household goods decreased the most, by 5.7%. Non-food product sales, in non-specialized stores, as well as books, newspapers and other sales, in specialized stores, decreased by 2.4 and 1.2% respectively. Against this, retail sales of textiles, clothing and footwear as well as retail sales of pharmaceutical and medical goods as well as cosmetics articles increased at moderate rates of 0.9 and 0.8% respectively. Of them, in textile retailing the decrease

in the prior year was replaced by a small increase, at the same time retail sales of pharmaceutical and medical goods as well as cosmetics articles expanded at a decelerating rate compared to 2007. In retail sales of second-hand goods in stores and in mail orders, accounting for a proportion of half per cent, sales continued to expand in volume, though at a slowing rate: the former and the latter increased by 3.6 and 4%, respectively.

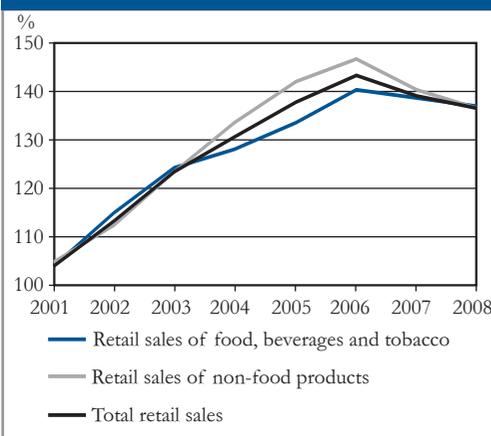
Since 2006, as a result of higher rates of increase or lower rates of decrease that characterized the retail sales of food, beverages and tobacco there was a slow ongoing shift in the **structure of sales** from non-food retailing to retail sales of food, beverages and tobacco. Retail sales of food, beverages and tobacco accounted for 52%, retail sales of non-food products for 48% of the HUF 6,350 billion worth of sales in 2008, a change of two percentage points over a year. For the greater part, it results from a further dynamic expansion in food, beverages and tobacco sales in non-specialized stores, which is the outcome of a further expansion of mega-stores. In retail sales of non-food products, textile, clothing and footwear, pharmaceutical and medical goods as well as cosmetics stores showed the highest increase in proportion, while sales in furniture and household goods stores decreased in 2008.

In 2008, turnover of **motor vehicles and motor vehicle parts and accessories stores** amounted to HUF 1,116 billion, that of fuel stations to HUF 1,211 billion. In retail sales of motor vehicles and motor vehicle parts and accessories, a slowing rate of increase and stagnation in prior years were followed by a decrease of nearly 6% in 2007, and in 2008 sales decreased in volume by 7.8% compared to a year earlier. The formerly recorded increase in retail sales of automotive fuel was replaced by stagnation.

Tourism, catering

In 2008, the section of hotels and restaurants accounted for a proportion of 1.5% of the **gross value added**; however, it played a greater role in employment: its **staff** of 157 thousand accounted

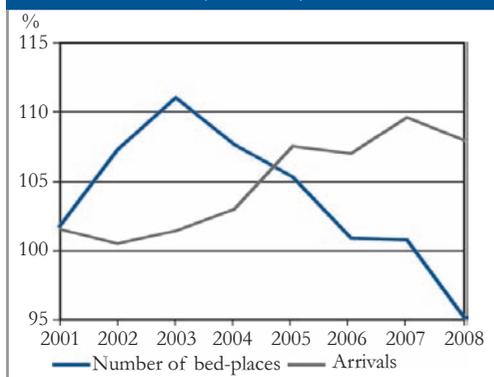
Figure 47: Volume of retail sales
(2000=100)



for 4% of all employed persons. A positive outlook of industry stakeholders is indicated by **investments** that increased in volume by 11% in 2008, while data showed a 3% decrease in the national economy.

For 2008, the performance indicators of this section indicated weakening or stagnation in general. A reduction in the **capacity** of public accommodation establishments has continued – since 2003, a moderately increasing trend in occupancy came to an end, the bed-place occupancy that is calculated to all types of public accommodation establishments amounted to 26.7%, while – excluding camp sites – the room **occupancy** was 41.2%. Over a year the room occupancy of hotels decreased by one and half percentage points and was 48.5%.

Figure 48: Number of bed-places and tourism nights in public accommodation establishments (2000=100)



Public accommodation establishments had **revenues** of HUF 245 billion, a year-on-year decrease even at current prices, while the consumer price index calculated to this section was 107.5%. Among the components of revenues – at current prices – there were increases of 6.3 and 5.4% respectively only concerning revenues from catering as well as at room revenues from domestic tourism, while revenues from other services and breakfasts showed the highest fall (9.5%). Out of specific revenue indicators, room revenues per tourism night and per available room per working day were HUF 7,030 and HUF 5,730, respectively, indicating a slight change at current prices.

In **catering**, sales – including the catering units of public accommodation establishments – amounted to a total of HUF 687 billion in 2008, 87% of which was generated by commercial sales (within this 11% by accommodation sales), while 13% by canteen (workplace) sales. After a 3.7% decrease in sales recorded in 2007, there was a higher year-on-year decrease of 4.8% in 2008. Within this, commercial sales showed a higher decrease in volume of 5.2%, while sales of canteens reduced by 1.9% over a year.

In 2008, the **Hungarians** made more than 17 million trips **abroad** and spent a total of 84 million days there with a total spending of HUF 725 billion. In 2008, unlike earlier trends there was a reduction in proportion of same-day travellers, but in this way they still accounted for an overwhelming proportion of 63% of those who travelled abroad. The number of trips rose by 1 and the time spent by 19.5% compared to the level a year earlier.

36% of the population made a **domestic overnight trip**, so the Hungarians, during around 22 million trips, spent nearly 88 million days in accommodation establishments or in other lodgings. Nearly half of the time was spent at lodgings provided by friends and relatives, while a quarter was spent at own holiday homes/chalets and second homes.

In **public accommodation establishments**, 4.1 million domestic guests spent 9.9 million nights, guests had an average length of stay of 2.4 nights. Though the number of guests rose by 2%, along with a reduction in the length of stay there was a slight decrease in the number of tourist nights on 2007. Compared with a dynamic expansion in earlier years (except for 2004) this shows a break in this positive trend, which was only mitigated by the continuously increasing sales of holiday vouchers. (In 2008 according to data of the Hungarian National Recreational Foundation, HUF 21 billion worth of holiday vouchers were exchanged at public accommodation establishments.)

The number of domestic tourist nights increase only in hotels, altogether by 1.6%, but five- and four-star units reported growth rates of 17 and 9%, respectively. After an increase in the prior three years, there was a reduction of 1.6% in tourism nights of

boarding houses in 2008, while essentially no change was recorded in holiday houses and camp sites, and decreases of 11–15% were registered in tourist and youth hostels. In conjunction with this, hotels accounted for an ever increasing proportion of the tourism nights of domestic guests, in 2008 for 63%, and higher category units continued to gain ground among hotels. Boarding houses played a weakening role, these accounted for 15% of sales; other accommodation types accounted for a decreasing proportion, too.

There were 684 thousand arrivals and 2.5 million tourism nights in **private accommodation units**, an overwhelming share of three fourths in private room-service, one fourth in rural room-service. Number of arrivals rose by 9, that of tourism nights by 7%. Guests had a longer length of stay than in public accommodation establishments (3.7 days), but it was also shortening.

40 million **foreign visitors** arrived in Hungary (excluding lorry drivers) and spent 97.4 million days in our country. Over a year, there was a 0.4% increase in the number of those who visited our country, while there was essentially no change in that of the days spent. (According to data of the UN World Tourism Organisation, at a global level, there was an annual decrease of around 2% in international tourist arrivals). 78% of visitors were same-day visitors; the number of overnight visitors was 8.8 million; they spent 7.6 nights on average in our country. Compared to the number of foreign visitors, public and private accommodation units that can be described by statistics accounted for a very low proportion of the nights spent by foreign guests.

3.5 million guests spent 9.9 million nights in **public accommodation establishments**. A 1.1% year-on-year increase was seen in the number of arrivals, but a 2.3% decrease in the total length of stay. Foreign guests spent 2.8 nights on average in these establishments, which was slightly longer than in case of domestic guests but it also shows a decreasing tendency.

There was a 1.8% decrease in arrivals in hotels, which account for the largest proportion (of four fifths) of foreigners, and the higher category units

were also affected by this decrease. A 1% increase was seen in three-star establishments as well as in camping sites that account for a tenth of arrivals and in tourist hostels that have a marginal significance. Essentially there was no change in the structure of arrivals broken down by type of accommodation over the past three years.

Citizens from the European Union (EU-27) accounted for 75% of the international tourist nights were recorded in public accommodation establishments. Out of the five main source countries (Germany, Austria, the United Kingdom, United States of America, Italy) citizens from the United Kingdom spent half per cent more, while the others fewer tourism nights than a year before; there was only a slight decrease of 3% in case of Austria, while in case of the other three main source countries 10–11%. However, there was an increase in the number of the tourist nights spent by guests from Poland (34%), Romania (21%) as well as from the Netherlands (2%).

285 thousand foreign guest spent 1.4 million nights in **private accommodation establishments**, out of this private room-service accounted for 92%, while rural room-service for the remaining part. The number of arrivals increased by 12%, that of tourism nights rose by a lesser rate, by 10%. The length of stay of guests was also above than what was recorded in public accommodation establishments: it amounted to 4.8 days, slightly less than earlier.

On 31 July 2008, public accommodation establishments had a **bed-place capacity** of 297 thousand, a 6% decrease on July 2007. A strong increase in capacity implemented in camping sites in 2007 was followed by an 8% reduction in 2008, there was a minimal change at hotels (within this, there was a growth in capacity in four- and five-star units), while other accommodation types were characterized by decreases of 1.5–20%.

At the end of July 2008, there were 39.2 thousand accommodation providers with 227 thousand bed-places in private accommodation. Over a year, there was essentially no significant change in numbers of accommodation providers or of bed-places, the former indicator having decreased by 1.1%, the latter by 0.3%. Private room-service accounted for 79% of capacities.

Table 18: Bed-place capacity and arrivals in public and private accommodation establishments

| Type of accommodation | Number of bed-places ^a | | Number of tourism nights | | Occupancy rate | |
|--|-----------------------------------|--------------|--------------------------|--------------|----------------|----------------------------------|
| | thousand | 2007 = 100.0 | thousand | 2007 = 100.0 | % | Change on 2007, percentage point |
| Hotel | 114.5 | 100.3 | 14,085 | 99.7 | 37.4 | -0.8 |
| Boarding house | 38.2 | 95.8 | 2,074 | 95.6 | 18.7 | -0.3 |
| Tourist hostel | 22.1 | 80.5 | 604 | 90.7 | 13.9 | +0.6 |
| Youth hostel | 15.9 | 83.6 | 603 | 83.6 | 20.8 | -1.9 |
| Holiday house | 20.1 | 98.5 | 881 | 98.5 | 21.9 | -0.1 |
| Camping site | 86.2 | 92.0 | 1,574 | 101.6 | .. | .. |
| Public accommodation establishments, total | 297.1 | 94.4 | 19,822 | 98.5 | 26.7 | +0.3 |
| Rural room-service | 47.6 | 110.2 | 744.5 | 106.7 | .. | .. |
| Private room-service | 179.9 | 97.2 | 3,145.0 | 108.2 | .. | .. |
| Private accommodation establishments, total | 227.4 | 99.7 | 3,889.4 | 107.9 | .. | .. |

^a On 31 July.

Out of the nine **tourist regions** the Budapest-Central Danubia and the Lake Balaton play an outstanding role in arrivals in public accommodation establishments. The former region accounts for 65% of foreign arrivals and 54% of tourism nights. Balaton settlements accounted for a proportion of 17% of total arrivals and for 23% of tourism nights, as a result of a longer stay that is characteristic of the region.

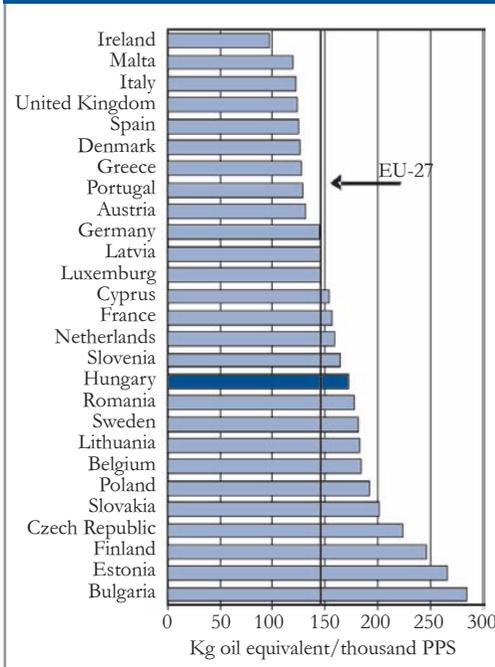
Nearly seven tenths of bed-places of private room-service were registered at the Lake Balaton. There is a more even distribution of bed-places of rural room-service: the Balaton accounts for 15% (there are no such bed-places in Budapest, so the Budapest Central Danubia Tourist Region accounts for a very low proportion).

Energy

In 2008, 1,120 PJ (petajoule) energy was used in the national economy, 0.5%, 5.4 PJ less than a year earlier. Over the past three years, along with a 5.8% increase in gross domestic product, there was a total decrease of 2.9% in energy use, resulting in a reduction of 8.2% in specific energy need. The reduction of energy use in 2008 took place parallel to a 0.6% rise of the GDP, thus energy intensity dropped by 1.1%. The domestic energy use per unit of GDP calculated on purchasing power parity was 18% higher than the average of the European Union.

fall (of 2.2%) last year. In energy use, the use of the household sector that accounts for the second highest proportion (36%) is significantly influenced by the heating demand, which facilitated a nearly 5% reduction in 2007. The use in 2008 was 1.1% higher than this relatively low level. The energy use of communal and other consumers that account for a proportion of 18% was the same as a year ago. In the agriculture, after a decrease of 4.7% in 2007, there was a 2.6% increase in energy use last year.

Figure 49: Energy use per unit of GDP, 2007



In 2008, the energy use of industry was down by 1.2% and its share was 37.8% in total energy use. In the construction industry a decrease of nearly 10% in energy use in 2007 was followed by a smaller

Table 19: Energy in main groups of consumption

| | | | | (Petajoule) | | |
|----------------------|----------------|----------------|----------------|-------------|--|--|
| Group of consumption | 2006 | 2007 | 2008 | | | |
| Total | 1,152.0 | 1,125.4 | 1,120.0 | | | |
| Of which: | | | | | | |
| Industry | 421.3 | 428.9 | 423.9 | | | |
| Construction | 10.7 | 9.2 | 9.0 | | | |
| Agriculture | 35.9 | 34.2 | 35.1 | | | |
| Transport | 50.3 | 50.6 | 50.0 | | | |
| Communal and other | 218.0 | 202.0 | 202.0 | | | |
| Households | 415.8 | 395.6 | 400.0 | | | |

Similarly to earlier years, 32% of sources of energy needs originated from domestic production, while 68% from imports. Out of production, there was nearly the same amount (0.9% more) available as in 2007. Several types of energy – among others oil and coal – showed decreases in production, while there were increases in natural gas, nuclear electricity, firewood as well as in case of other renewable energy sources.

In 2008, there was a 6.2% increase in imports of energy sources, within this, out of those imported in the highest volumes, there was a 16% increase in imports of natural gas after a decrease in the prior two years, while there was a slight decrease in those of oil and oil products. Over this year, exports stood at 175.5 PJ, 14% more than a year earlier and 25% more than in 2005. Oil and oil products accounted for the largest and rapidly increasing proportion of exports. Of available sources 39 PJ was to increase the reserves.

In 2008, renewable sources (water and wind electricity, firewood and other renewable energy sources) accounted for an output of 62 PJ with a proportion of 14.4% of total domestic output. In Hungary, within the total energy use, the use of renewable energy accounted for a proportion of

5.3% in 2007, more than two thirds of the average of the EU (7.8%). A lower proportion was observed in the Netherlands (3.6%), Belgium (3.1%) and Ireland (2.9%). The share of renewable energies was 10–12% in Slovenia, Estonia and Romania and nearly 30% in Latvia.

State and protection of the environment

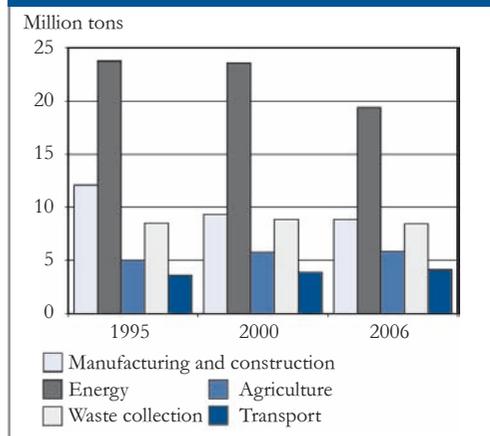
In a European context, agricultural use accounts for an outstanding proportion (of 62%) of the territory of our country. Leaching from agricultural soils exerts an unfavourable influence on water quality, ground waters are getting polluted and surface waters are getting subjected to algal blooms. From the 1990s, the sharp fall in the **use of fertilizers**, from this point of view, may be evaluated as favourable. In the mid-70s, there was a peak (224 kg) in fertilizer use per hectare of agricultural land, in the mid-90s it was less than the half of it, while at the turn of the millennium less than the third of it. Since then, there has been a slow increase again in fertilizer use, in 2008 it amounted to 74 kg, far below than in the majority of Western European countries. Between 2000 and 2007, the quantity of plant protecting agents sold doubled, within the volume of insecticides more than trebled. 41% of plant protecting agents sold are **herbicides**.

The emission of **air pollutants**, after a general and large-scale decrease at the end of the last century, showed a smaller and more differentiated change in the present decade. There was a further decrease in the majority of noxious substances, but the emission of nitrogen-oxides rose and that of non methane volatile organic compounds did not change essentially.

A final list was issued on the Natura 2000 areas with an amendment in the government decree that was issued

at the end of 2008. 39% out of a total of 1 million 950 thousand hectare Natura 2000 areas is the part of our earlier **protected areas**. Our country is the part of the Pannon bio-geographical region, a home to a number of species and habitat types which are unique in the EU.

Figure 50: Emission of greenhouse gases by branches (CO₂ equivalent)



The LIFE program of the European Union in the first place is to preserve and improve the state of Natura 2000 areas. By the aid of it both civil environmental

Table 20: Protected natural areas, 2007

| Natural area | Number | Area, thousand ha | Of this: areas of special protection |
|--|--------------|-------------------|--------------------------------------|
| National parks | 10 | 486 | 85 |
| Landscape protection areas | 37 | 327 | 45 |
| Nature reserves with a national significance | 162 | 32 | 3 |
| Nature reserves with a local significance | 1,296 | 39 | – |
| Total | 1,505 | 884 | 133 |
| Natura 2000 | | | |
| Special nature reserves | 467 | 1,390 | – |
| Bird protection areas | 55 | 1,350 | – |
| Ramsar areas | 26 | 205 | – |
| MAB biosphere reserves | 5 | 144 | – |

organisations and national park directories received a support which provided a significant help to preserve our most precious areas and species our country used LIFE funds in 2001 for the first time, up to 2007 there were 20 grants awarded with an EU funding of nearly EUR 17 million for nature protection in Hungary.

In Hungary, in 2007, forests covered an area of around 1,891 thousand hectares, a 38 thousand hectares year-on-year increase, as a result of a rise in afforestation and a decrease in wood felling. In 2007, a total of 19 thousand hectares was afforested, 5 thousand hectares more than a year earlier. Along with this, wood production decreased to 6.6 million cubic m, since 2000 for the first time below the output level of 7 million cubic m. Nowadays, In Hungary, forests account for small proportion of areas along with a high share of planted forests and plantations with non-native species: native tree species account for 57%, non-native tree species for 43%. A fifth of the territory of the country is covered by forests.

In 2007, there was a slight deterioration in the health condition of forests: the share of healthy trees decreased (to 39%). Slightly damaged trees accounted for a proportion of 33.9, damaged and strongly damaged trees for 18.5 and 6.4%, respectively.

Unlike other countries in the world, in Hungary, since 2004, there has been a decrease in the proportion of areas cultivated in line with the principles of

organic farming, and since then the number of units farming in this way has been reducing. In 2007, there were a total of 1,441 controlled businesses. Nearly 90% of controlled areas – 109 thousand hectares – switched over yet, 12% is in the transition period. Meadows, pastures account for more than half of them, while arable lands for 41%. Plantations account for a share of 2.5%; other areas are for fish ponds, forests, reeds and (sheep-) pens etc.

Since the beginning of the 1990s, there has been a gradual decrease in the **water consumption** of the national economy, in which a main role was played by a reduction in the agricultural and household water consumption. Supposedly, this thrift in the first place results from an increase in water and sewerage charges, several times higher than the consumer price index. Between 2000 and 2007, there was a 3% decrease in the volume of water provided for households. 99.9% of settlements enjoy the benefits of the piped water supply, while in this period there was an increase of 2.6 percentage points in the proportion of connected homes, amounting to 94.7%. There was a decrease in the number of settlements that temporarily have not satisfactory drinking water in line with sanitary regulations. In 2007, 6 settlements needed bottled water services.

In the past years, there was a significant expansion in the public **sewerage network**. At the end of 2007, the length of the sewerage network was 40,562 km, nearly 16 thousand km longer than in 2000. There was an increase in the volume of municipal waste waters were emitted and drained through a public sewer up to the middle of the decade, since then it has decreased in spite of an expansion in the public sewerage network. In 2007, it was 534 million cubic m, around 6% less than a year earlier. An ever increasing part of waste water drained through a public sewer undergoes biological and tertiary treatment: the share of sewage waters undergone at least biological treatment rose from 58 to 72% during the past 7 years.

There is a decreasing tendency in the total **waste volume** generated in the past years, but there is an ongoing change in the proportion of the types of waste.

In 2007, the volume of municipal solid waste dropped after an increase in earlier years; its quantity

Figure 51: Area under organic farming

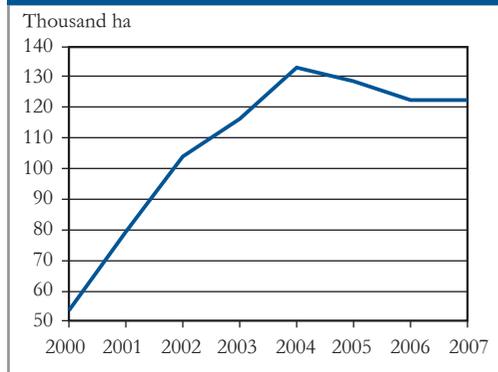


Table 21: Generation of wastes

| Type of waste | 2000 | 2006 | 2007 |
|---|--------|-------|-------|
| Municipal solid waste, thousand tons | 4,552 | 4,711 | 4,594 |
| Municipal liquid waste, thousand cubic m | 6,172 | 5,027 | 4,690 |
| Hazardous waste, thousand tons | 2,554 | 1,366 | 1,082 |
| Industrial and other corporate non-hazardous waste, thousand tons | 10,062 | 8,204 | 7,489 |

per head was 457 kg. Municipal liquid waste amounted to not more than 0.5 cubic m per head. Traditional practices account for a decisive part (87%) of the collection of municipal solid wastes, selective waste collection for only 7%, while junk clearance and public area cleaning for the remaining part.

Landfill is the least environment-friendly mode for waste management, because it results in a contamination of heavy metals and other toxic components from leachate, in an emission of greenhouse gases, in the loss of valuable areas and in an increase of road traffic. In spite of this, this is the most widely used procedure of waste management, because it has lower specific costs than incineration or recycling. Landfill accounts for 83% of the disposal of municipal solid waste in Hungary and 74% of this quantity gets into a landfill that is subject to technical protection measures.

Energy use and a decrease in the volume of waste are made possible by incineration. It has disadvantages like emitting poisonous gases, e.g. dioxins, resulting in slag which later will be landfilled (although a part of

it can be recycled) and causing water pollution as a result of gas cleaning.

In the national economy **environmental investments** amounted to HUF 171 billion in 2007, in which direct investments accounted for 88%, while the so-called (process) integrated environmental investments for 12%. Real value of total environmental investments dropped by nearly 20% compared to the year before. Direct environmental investments increased in volume by 5%, while integrated investments fell to a third. Compared with 2001, only a slight decrease was seen in 2007 in the real value of direct investments, while that of integrated investments fell to less than its half.

Nearly half of the investments in 2007 were for sewage treatment and around a fourth of them were for preventing air pollution. 29% of investments were carried out by public administration and an overwhelming share in its investments were direct ones. Most of the integrated investments were in manufacturing (41%) as well as at businesses classified to the industry of other community, social and personal service activities (40%). In 2007, environmental investments amounted

Figure 52: Disposal of municipal solid waste, 2007 (percentage distribution)

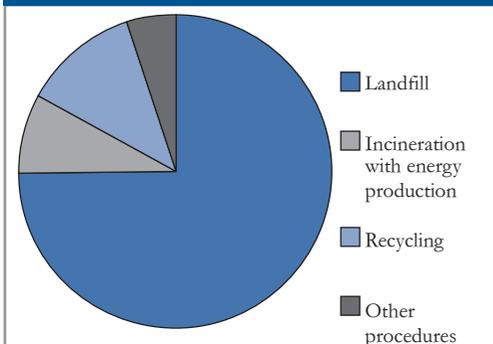
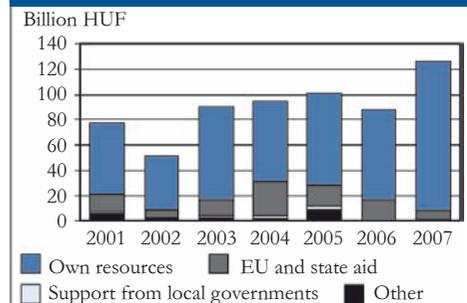


Figure 53: Environmental investments by type of funding in agriculture, industry and services not in the public administration



to HUF 46 billion in manufacturing, a year-on-year increase of 57% at comparative prices.

In 2007, nearly 94% of the environmental investments of businesses outside the public administration were own funded, while the share of direct EU and state funding was 5%. The proportion of investments implemented with the use of external funding decreased in 2007 compared to the year before mainly as a result of a sharp decrease (nearly 80% in volume) in state-funded investments.

In the national economy, in 2007, intra-organisational environmental expenditures amounted to HUF 205 billion in value, while HUF 126 billion was paid for external service providers, in both cases decisively for waste and sewage management.

In 2007, there were net sales of HUF 370 billion of goods and services sold by businesses belonging to the

environmental industry; HUF 23 billion more than a year earlier. Out of this 98% came from revenues from producing products aiming to reduce environmental pollution in a direct way and providing such services.

Businesses employed a total of 19,800 people in 2007 in connection with the activities of the environmental industry.

Since 1993, there has been a quality assurance system to distinguish environment-friendly products. Its purpose is to strengthen responsibility for the environment and to stimulate producers and distributors to introduce products and services with more favourable qualities from the point of view of the environment. There were a total of 339 **ecolabel** products, an increase of 40% over eight years. A decisive share of them (88%) were construction products and packaging materials.

List of figures

| | |
|---|----|
| Figure 1: Number of population by sex, age and marital status, 1 January 2008 | 7 |
| Figure 2: Live births and deaths per thousand inhabitants..... | 9 |
| Figure 3: Distribution of the population aged 15–64..... | 13 |
| Figure 4: Changes in unemployment rate..... | 14 |
| Figure 5: Average gross monthly earnings | 17 |
| Figure 6: Changes in average net monthly earnings on the year before..... | 18 |
| Figure 7: Average monthly earnings..... | 19 |
| Figure 8: Shares of old-age population and pension expenditure, 2006..... | 19 |
| Figure 9: Yearly changes in the nominal assets and liabilities of households | 23 |
| Figure 10: Final consumption of households and its components as a % of GDP | 23 |
| Figure 11: Consumer price growth on the year before..... | 24 |
| Figure 12: Construction of dwellings | 27 |
| Figure 13: Number of reported malignant neoplasm..... | 28 |
| Figure 14: Diseases of people over 18 years of age registered at GP-s per thousand inhabitants..... | 29 |
| Figure 15 : Number of overweight children per thousand examined children, 2007 | 29 |
| Figure 16: Proportion of settlements providing basic social services | 31 |
| Figure 17: Number of minors under child protection..... | 32 |
| Figure 18: Number of people receiving social support..... | 33 |
| Figure 19: Number of crimes against property | 35 |
| Figure 20: Number of discovered crimes and perpetrators per hundred thousand inhabitants, 2008 | 36 |
| Figure 21: Number of participants in full-time courses of school education | 39 |
| Figure 22: Number of students in full-time courses of secondary education..... | 40 |
| Figure 23: Number of students in tertiary education, 2006..... | 42 |
| Figure 24: Source of funds of research and development expenditure..... | 43 |
| Figure 25: Number of published books by genre | 44 |
| Figure 26: Change of GDP compared to the same quarter of the previous year (after seasonal and working-day adjustment) | 48 |
| Figure 27: GDP and gross fixedcapital formation (change on same quarter of previous year) | 49 |

| | |
|--|----|
| Figure 28: GDP, consumption and real earnings (change on same quarter of previous year)..... | 49 |
| Figure 29: Net exports as a proportion of GDP..... | 50 |
| Figure 30: Volume of GDP and investments (2000=100)..... | 54 |
| Figure 31: Current account and its components..... | 59 |
| Figure 32: Net foreign debt stock (at end of year)..... | 60 |
| Figure 33: Balance of external trade in goods (at current prices)..... | 61 |
| Figure 34: External trade in machinery and transport equipment..... | 62 |
| Figure 35: External trade in manufactured goods..... | 63 |
| Figure 36: Index of gross production in agriculture (2000=100)..... | 67 |
| Figure 37: Agricultural producer prices (2000=100)..... | 69 |
| Figure 38: Changes in industrial production and sales (compared to the previous year)..... | 69 |
| Figure 39: Industrial output in the EU-27 and Hungary (previous year = 100)..... | 72 |
| Figure 40: Changes in industrial producer prices (compared to the previous year)..... | 72 |
| Figure 41: Output volume of construction (2000=100)..... | 73 |
| Figure 42: Performance of transport branches in goods transport, 2008..... | 74 |
| Figure 43: Performance of interurban passenger transport by main mode of passenger transport..... | 75 |
| Figure 44: Number of personal cars and registrations for the first time..... | 76 |
| Figure 45: Index on the number and average duration of calls (2005=100)..... | 77 |
| Figure 46: Index and distribution of the number of internet subscriptions..... | 78 |
| Figure 47: Volume of retail sales (2000=100)..... | 79 |
| Figure 48: Number of bed-places and tourism nights in public accommodation establishments (2000=100)..... | 80 |
| Figure 49: Energy use per unit of GDP, 2007..... | 83 |
| Figure 50: Emission of greenhouse gases by branches (CO ₂ equivalent)..... | 85 |
| Figure 51: Area under organic farming..... | 86 |
| Figure 52: Disposal of municipal solid waste, 2007 (percentage distribution)..... | 87 |
| Figure 53: Environmental investments by type of funding in agriculture, industry and services not in the public administration..... | 87 |

List of tables

| | |
|--|----|
| Table 1: Data on main vital events by regions, 2008 | 10 |
| Table 2: Main demographic indicators of some EU member states, 2008..... | 11 |
| Table 3: Labour market trends in the regions (among population aged 15–64 years) | 15 |
| Table 4: Consumer price changes on the year before | 25 |
| Table 5: Outpatient services performing the most interventions, 2007 | 30 |
| Table 6: Financing of curative-preventive provisions by tasks | 30 |
| Table 7: Main supports granted by local governments, 2007..... | 33 |
| Table 8: Proportion of students by school operator in full-time education, 2008/2009 | 40 |
| Table 9: Distribution of students participating in college and university (bachelor and master) level education..... | 41 |
| Table 10: Research and development expenditure and staff number by types of organisations..... | 43 |
| Table 11: Gross national income..... | 51 |
| Table 12: Regional GDP data, 2007 | 53 |
| Table 13: Regional data by location of implementation of investments, 2007 | 55 |
| Table 14: Major data on countries having the highest stocks of direct investments in Hungary at the end of 2007 | 56 |
| Table 15: Balance of external trade in goods by groups of countries..... | 62 |
| Table 16: Production of major crops | 68 |
| Table 17: Changes in the industrial production by region | 71 |
| Table 18: Bed-place capacity and arrivals in public and private accommodation establishments | 82 |
| Table 19: Energy in main groups of consumption | 83 |
| Table 20: Protected natural areas, 2007 | 85 |
| Table 21: Generation of wastes | 87 |

Explanation of symbols:

- = Non-occurrence.
- .. = Not available.

Notes:

In the table, the amount of partial data may differ from the total due to roundings.

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Cover design: Vargas Print Stúdió Kft.

Printed by Xerox Magyarország Kft. – 2009.129