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S I T U A T I O N R E P O R T

Foreign Economic Relations

1. A Major Foreign Trade Problem Analyzed
2. Foreign Trade in January-May 1977

Social Issues

- ### 3. Child-Care Aid Scheme Under Attack

Religion

- #### 4. Conservation of Religious Artifacts

Agriculture

- ## 5. Cereal Harvesting Complete

FOREIGN ECONOMIC RELATIONS1. A Major Foreign Trade Problem Analyzed

Foreign trade accounts for 40 per cent of Hungary's national income, and is therefore of cardinal importance to the economy. The sector has been troubled in recent years by an adverse balance of payments, deteriorating terms of trade, and structural problems. (The trade deficit, which appeared to be diminishing, seems to have worsened in the first five months of this year, a point discussed in detail in Item 2 below.)

Hungarian economists have therefore undertaken a series of comprehensive studies of the main problems facing the foreign trade sector, and a recent report by the Directorate-General of Economics in the Ministry of Foreign Trade is of especial interest. Excerpts from it were published in the July issue of Kulgazdasag in an article entitled "The Imported Material Content of Hungarian Exports." After examining the familiar difficulties mentioned above, the report concluded that the structure of exports is as important as their volume: "Increased volume will not by itself solve the problems of the foreign trade balance."

The report argued that the proportion of imported materials used in manufacturing exports is of extreme importance, as is the question of whether they derive from the dollar or the ruble sector. The changes in this proportion between 1972 and 1974 (i.e., the period in which major changes in world market prices occurred and in which the main deterioration in the terms of trade took place) were as follows:

Import Material Content of Industrial Exports in 1974 (1972=100)

Ruble Sector Exports		Dollar Sector Exports	
	Accounts settled in		
rubles	dollars	rubles	dollars
89.3	213.7	143.5	385.1

The report reached the following conclusions:

- a. Owing to the rocketing prices of dollar-sector imports in 1974, the import costs factor in industrial exports rose steeply;
- b. In 1974 Comecon prices were still relatively stable, but because of "procurement difficulties" some materials previously obtainable on the socialist market had to be bought in the West /i.e., Hungary's Comecon partners were not prepared to sell certain basic materials for rubles/;
- c. The terms of trade will probably continue to deteriorate also in the ruble-clearing sector, which will mean that more exports will be needed to buy a given volume of imports; sales to the rest of the socialist world will "probably take place under increasingly hard conditions."

11 August 1977

The main conclusion of the report was that the solution of the problem does not lie exclusively in increasing export volume, either in the dollar or the ruble sector, because higher exports mean higher imports, which can operate to the disadvantage of Hungary owing to the adverse movement in the terms of trade. The only solution is the speedy modification of the export structure in such a way that it stops the losses deriving from that movement. A certain economy in imports is possible, "but every measure that limits imports can entail a reduction of output and simultaneously of exports."

It was noted in the report with unusual candor that in addition to fundamental economic criteria "strategical and political criteria have also to be satisfied, with which we neither can nor wish to concern ourselves within the framework of this kind of analysis."

Several interesting findings resulted from the report's analysis of economic efficiency in the foreign trade sector among the various economic branches. The chemical industry's efficiency index is very low in the sphere with which the report is concerned: the import content of its dollar exports exceeds half the value of the latter. This is hardly surprising, as the main basic material used in this industry is oil. The chemical industry is the most highly developed branch of Hungary's industrial economy, and the weakness indicated by this index is therefore important for the economic efficiency of the country's foreign trade.

Agricultural exports, on the other hand, win high marks in this particular analysis, partly because of favorable price developments and partly because of Hungary's natural advantages here. The index for machine industry exports is also satisfactory.

The point was repeatedly and explicitly made in the report that exports must be analyzed to determine how many dollars are exported de facto along with ruble exports (and vice versa) in the various economic branches. One reason why the present export structure is unsatisfactory is that any increase in ruble exports entails a disproportionately greater rise of their dollar-import content.

The Kulgazdasag article sees the future in the following terms:

There is an increasing trend within Comecon to use world market prices and in practice this is being accomplished by the introduction of a moving average basis. It is to be expected, therefore, that the Comecon market will increasingly move closer to the world market with regard both to export and import prices and to market conditions. This, however, will also follow from the fact that changes will take place in the next few years in the Comecon market of the sort that occurred between 1972 and 1974 in the world market -- although not with the same intensity as in our dollar-sector foreign trade. It is therefore to be expected that what happened between 1972 and 1974 in the sphere of dollar exports will characterize future developments in the ruble sector.

The report attacks the present system of subsidized exports, which it says conceals their real value: "In principle the widespread practice of subsidizing exports cannot be considered acceptable, and

11 August 1977

it is not expedient to maintain it over the long term." Import price subsidies also have their drawbacks:

In the case of imports . . . these subsidies -- costing a considerable sum in 1974 -- blunted the far-reaching impact of large-scale world market price increases. But in the last analysis their effect was that importers were not forced to economize in imports and did not feel the changes in world market prices. Consequently they could not and did not attempt a more rational management of their imports, and this contributed largely to the deterioration in both the terms of trade and the trade balance.

The report makes an important contribution to the theoretical analysis of one of Hungary's major economic problems and demonstrates its complexity and urgency. To correct what is wrong, however, is another matter and a much more difficult one.

2. Foreign Trade in January-May 1977

Statistical data for the first five months of 1977 show that the Hungarian foreign trade balance deteriorated both in the ruble- and dollar-clearing sectors:

Trading Sector	January-May	
	1976	1977
	(million forint)	
Ruble-sector deficit	5,213	6,851
Dollar-sector deficit	10,513	15,999
<u>Source:</u> <u>Statisztikai Havi Kozlemenyei</u> , No.6/1977.		

Minister of Foreign Trade Jozsef Biro told a recent press conference (Radio Budapest, 5 August 1977) that the position was especially bad in the dollar sector; the terms of trade were continuing to deteriorate and only a 6 to 8 per cent rise in export prices is to be expected against a 10 to 12 per cent increase in the cost of imports from that sector. He noted that imports from the capitalist countries were running according to plan but that the enterprises were lagging behind in their exports: "Interest in a number of our products which were previously successful has decreased." Less agricultural machinery and fewer buses, trucks, and machine tools had been sold than planned and market research and publicity were inadequate. The average price of rolled metal products, for example, which play an important role in exports to the West, dropped by 10 per cent; simultaneously the price of important raw materials purchased in the West rose considerably: lead by 40 to 45 per cent, copper by 20 per cent, and raw hides by 70 per cent.

11 August 1977

Vilaggazdasag (7 July 1977) provided a breakdown of foreign trade in the first five months of 1977 according to continents and countries. During this period Hungary traded with 60 countries, and the largest foreign trade deficit was incurred in commerce with the Soviet Union: 5,118 million forint; the deficit with the FRG was 3,619 million and with Brazil 3,313 million. The total adverse balance in trade with the European Comecon countries plus Yugoslavia amounted to 5,050 million forint, so the loss is attributable entirely to trade with the Soviet Union; Hungary's account was in surplus during the first five months of the year with Czechoslovakia, Poland, and Yugoslavia. The deficit with Brazil was strikingly high, presumably because of the rise in coffee prices.

During January-May 1977 there were no Hungarian imports from three countries: Kuwait, Libya, and Venezuela, with the result that exports to them built up a favorable balance of 769,400,000 forint. It is probable that these countries -- especially Libya and Kuwait -- will become Hungary's main nonsocialist suppliers of oil when it begins to flow through the Adria pipeline to the Hungarian refineries. This may explain the apparent drive to accumulate the necessary currency reserves in these countries.

The attention of Hungarian exporters is obviously turning more and more toward such countries, which have become rich because of their oil but are still ranked as developing countries so far as industrialization is concerned. These are often countries in which Hungarian industrial exports can find a ready market.

This fact was pointed out in an article in the 2 August 1977 issue of Vilaggazdasag by Tamas Boronkay entitled "A Country to Which We Only Export." It dealt with Venezuela, which Boronkay said was one of Hungary's largest customers for buses, and in 1974 and 1975 imported more than 60 Ikarusz models. It is not easy, however, for Hungarian exporters to hold their own against keen international competition from firms like the West German Daimler-Benz or British Leyland. Servicing and spares backing has to be provided and difficult local conditions mastered. There is also the problem of customers who misuse their purchases: long-distance buses are operated in the cities and those intended for urban traffic are used over great distances.

Boronkay pointed out that Venezuela is a rich country but still a developing one, and the workers are often transported to work in dilapidated old buses or trucks. Consequently, there is a market not only for luxury buses but also for more utilitarian vehicles. Negotiations are under way for the export of cranes, electric ovens, and other products. Venezuela is an important Latin American market, he concluded, not only because of its large-scale development program and its comparative political stability, but also as a springboard for other markets such as Peru, Ecuador, Colombia, and Bolivia.

11 August 1977

SOCIAL ISSUES3. Child-Care Aid Scheme Under Attack

It is clear from a recent press article (Magyarorszag, 17 July 1977) that the child-care aid scheme is coming under increasing attack. Many industrial leaders allege that it is hampering plan fulfillment by aggravating the shortage of labor, and some sociologists have put forward the objection that the scheme is incompatible with equality of rights for women.

The child-care aid system is now 10 years old (see Hungarian Situation Report/2, Radio Free Europe Research, 18 January 1977, Item 2). In its early years the press emphasized its advantages, but in recent times the tone of comment has been more critical, and it is because of this that Magyarorszag has sought to put the record straight.

At present some 300,000 women are enjoying the benefits of the child-care aid system, and this large figure has unpleasant implications for those enterprises that use female labor in quantity -- for example, textile factories. In an attempt to alleviate the problem an experiment was conducted in 1976 under which 10 textile enterprises provided work for 5,000 young mothers that could be done at home. The experiment was not a success: only about 50-60 of them made use of the opportunity and the majority only for a few months. They found that if they worked two to three hours a day the remuneration they received was not commensurate with the effort they expended. The enterprises, too, were unenthusiastic about the project.

In spite of the criticism the child-care aid system has received, there is no question of its being jettisoned. There are several good reasons for this. The number of children under three years age in Hungary is about 500,000, and only 10 to 12 per cent of them can be accepted in day nurseries; the rest must stay at home. One nursery place costs 200,000 forint to create and 1,800 forint per month to maintain; moreover, every 1,000 children require 300-400 staff to look after them. It is clear from such figures that the nursery network can be increased only slowly, and the child-care aid system must obviously be retained until a significant increase in the number of nurseries makes it possible to reduce its period of application from, say, three years to two.

The root of the problem is that at present there are insufficient funds to permit the improvement of all the institutions involved in the care and education of children. The demographic program was announced with great enthusiasm, but only part of it was implemented and it was found, apparently with some surprise, that things were not going well: maternity wards could be extended only by placing beds in corridors or putting more beds in the rooms; baby care and premature birth care soon presented almost insurmountable difficulties; nurseries were overcrowded; and thousands of young women

11 August 1977

were giving birth to babies without having even an elementary knowledge of child care. It is clear that much remains to be done to alleviate the problems created for the authorities by mothers with small children and families with several of them.

RELIGION

4. Conservation of Religious Artifacts

Many of Hungary's historical monuments and other artifacts are of ecclesiastical origin, and their conservation is in the common interest of the Churches and the states. In the three decades that have passed since the end of the war, increasing co-operation has developed between the two sides in this field.

After 1945 the protection of monuments, which has a tradition of more than a century behind it, received a new legal and organizational status, and today the care of historical monuments is the responsibility of the building administration, while cultural aspects are watched over by a special organization. The National Board of Monuments, which organizes and controls the conservation of monuments, was set up by the Ministry of Public Construction and Urban Development in 1957. Special committees operate in the counties, and in the capital the Budapest Board for Historical Monuments assists the Executive Committee of the Budapest Municipal Council.

The Churches have similar bodies, such as the National Council for Ecclesiastical Art and Historical Monuments set up by the Roman Catholic Episcopate, together with local committees in the dioceses. The reformed Churches have parallel organizations.

The July 1977 issue of Vilagossag contained an article by the head of the Publishers of the Fine Arts Fund, Margit Pasztoi, entitled "The Protection of Church Monuments in Hungary." In 1975, she said, there were 8,304 historical monuments in the country, including bridges, statues, etc., of which 2,611 were churches, chapels, monasteries, etc. The following is a breakdown by denomination:

	<u>per cent</u>
Roman Catholic	70
Reformed	21
Lutheran	6
Greek Orthodox	2
Jewish	1
	<hr/>
	100

11 August 1977

Between 1971 and 1975 the Churches -- mostly under the direction of the National Board of Monuments -- carried out restoration work worth 196,000,000 forint on 1,259 of these artifacts. The board contributed 22,000,000 forint to the restoration of 319 protected ecclesiastical monuments, which was 11 per cent of the state budget's allocation of funds for Church purposes.

Pasztói described the help given by the government in restoring the larger churches damaged during the war. The state spends approximately 5,700,000 forint annually on the repair and maintenance of churches in Budapest, she said, and between 1957 and 1975 the board carried out work on close to 1,000 such structures.

In 1971 a useful handbook was published entitled "Maintenance of Church Buildings and Monuments," which, the Vilagossag article said, "outlines the joint measures to be taken by the Churches and state organizations for the protection of historical monuments."

In addition to the buildings themselves, the manuscripts and valuable objects owned by the Churches are of great scientific and artistic value; their protection is in the common interest of the Churches and the state. At the end of March 1977, a conference was held in the Ministry of Culture to determine what needs to be done in this sphere. An examination of valuable books and manuscripts in the larger ecclesiastic collections has started as well as the cataloguing of archive material in the parishes. The various Churches have created their own agencies to handle this work and here, too, relations between the state and the Churches have become more closely organized.

AGRICULTURE

5. Cereal Harvesting Complete

In recent years harvesting has been carried out in Hungary with steadily increasing efficiency, and this year the work was practically complete by the beginning of August. Grain was gathered from 1,650,000 ha., of which 1,300,000 ha. were wheat (Vilaggazdasag, 30 June 1977). Organization was better and more flexible and grain loss was lower than last year, partly because the proportion of up-to-date, large-output machines in the 14,000 combines available increased considerably.

Before this year's harvest started, the farms purchased more than 1,200 modern combines -- 150 of them from the West German firm of Claas. The member farms of the Szekszard Plant Cultivation System, for example, based their success on the use of Claas combines (Kisalfold, 31 May 1977). With these new purchases the daily output of Hungary's combine fleet increased to 470,000 tons of grain and total harvest time dropped from 280 shift-hours in 1976 to 230 shift-hours, under similar yield and weather conditions (Nepszava, 2 July 1977).

11 August 1977

Owing to early ripening, it was possible to begin the cereal harvest a week earlier than in 1976 (Nepszabadsag, 30 July 1977), and in the last 10 days of July combines from Czechoslovakia helped to harvest the grain crop in the farms of Northern Hungary (Radio Budapest, 31 July 1977).

At the beginning of August, the straw had been removed from 70 per cent of the harvested area and approximately 60 per cent of the ground had been tilled (Nepszabadsag, 4 August 1977). This was largely due to the fact that during 1977 the number of tractors of more than 100 hp has increased considerably. In 1976, for example, there were only 1,000 Raba-Steiger tractors at work, but by the end of May of this year there were 2,000, and an additional 700 were expected by the farms.

Not even preliminary data on national yields have appeared, but some county averages have been published. In Hajdu County, the yield was described as "plentiful" (Hajdu-Bihari Naplo, July 27); in Tolna it was said to be "good" (Tolna Megyei Nepujsag, July 26); in Pest it was reported to be satisfactory, and in one agricultural co-operative it was 46 quintals per hectare (Pest Megyei Hirlap, August 2); in Szabolcs two thirds of the agricultural co-operatives reported an average wheat yield higher than in 1976 (Kelet Magyarorszag, July 29); and in the agricultural co-operatives of the Mohacs district of Baranya County the figure was 55.2 quintals, compared with 52.6 in 1976 (Dunantuli Naplo, 27 July 1977). Out of a planned 3,700,000 tons of grain, the Grain Trust's county enterprises had procured 3,200,000 tons by the end of July and the purchase of an additional 500,000 tons was planned for August. Nearly all of this grain is wheat (Nepszabadsag, August 5). In July-August 1976 the Grain Trust procured 3,263,474 tons of wheat and 62,423 tons of rye (Statistikai Havi Kozlemenyek, 1977/6). These data suggest that even if the wheat crop does not match the bumper yield of 1976, the country's bread supply will be guaranteed and there will be a substantial surplus for export.

The perennial problem of storage remains unsolved, however. Between 1971 and 1975 the grain procurement enterprises increased their storage capacity by 574,000 tons, and another 375,000 tons were added in 1976 and 1977; even so, the procurement enterprises have only 2,520,000 tons permanent and 935,000 tons of temporary storage capacity. This has made it necessary for the farms once again to undertake the storage of some of their wheat (Nepszabadsag, 30 June 1977). The obvious remedy is to get rid of the wheat earmarked for export as soon as possible, but transportation shortages make this difficult to achieve: only 100,000 tons per month -- half the desired volume -- can be sent abroad by the transport enterprises (Magyar Hirlap, 24 March 1977). As in previous years, much of the wheat will have to be stored on the ground and covered with plastic material, which usually results in deterioration of its quality.

The problem of marketing is even more intractable. Potential customers are to be found only within a radius of approximately 500 km.,

11 August 1977

and Hungarian wheat cannot compete with the US product in the harbors of the Middle East because of the 20-25 dollars per ton transport surcharge. Most West European countries are self-supporting in wheat and buy only hard wheat containing best-quality flour, which the Hungarians cannot yet provide. In any case, Western markets are offering only 100 dollars per ton, against 150 in 1976.

The GDR, Poland, Czechoslovakia, and the Soviet Union pay for Hungarian wheat, under long-term agreements, with dollars or raw materials: crude oil from the Soviet Union and sulfur and other important raw materials from Poland, for example. Unfortunately, the world market price of wheat, which constitutes the basis for the settlement of accounts, has fallen recently, while the price of crude oil has remained unchanged and the prices of other mineral raw materials are rising. This situation is causing problems for Agrimpex, the Agricultural Foreign Trade Enterprise, which sells its wheat at world market prices (Dunantuli Naplo, 2 August 1977). Worst of all, perhaps, the value of exports required to pay for imports of Soviet oil has trebled since January 1975 (Csongrad Megyei Hirlap, 2 August 1977).

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