

Foreign Trade and Capital Exports

Foreign trade

Overall figures. For a long time Hungary has been a small, open, yet foreign trade sensitive country and, as a consequence, a vulnerable economy. Its GDP growth rate is closely allied to its commercial success abroad. Exports used to be the key driving force behind economic growth (together with inward FDI). Due to a liberalised domestic market that is comparatively small, any attempts to counterbalance lower exports by boosting domestic demand, are doomed to fail. Economic vulnerability can only be addressed with increased competitiveness and sustained openness, certainly not by closing-down, even during a period of economic crisis combined with growing protectionist trends.

Between 1995 and 2008, Hungary's exports increased from less than EUR 10 billion to almost EUR 73 billion (a growth of more than 700%), while imports grew 6-fold, from EUR 11.7 billion to EUR 73 billion (*Table 43*). In other words, foreign trade has proven to be more dynamic than GDP growth, resulting in a continual increase in openness, with respect to both exports and imports. Today, Hungary is the most internationally integrated economy of all the new EU member countries, as evidenced by the geographic orientation of its foreign trade, as well as the striking trade surplus with the EU and deficit with non-EU countries (which is greatly contributed to by energy imports from Russia).

Geographic orientation of trade. Pre-1989, Hungary had already become the leading East Central European economy for trade with non-Comecon (CMEA) markets. Although the collapse of the CMEA came as a big shock to the economy, the geographic reorientation of trade

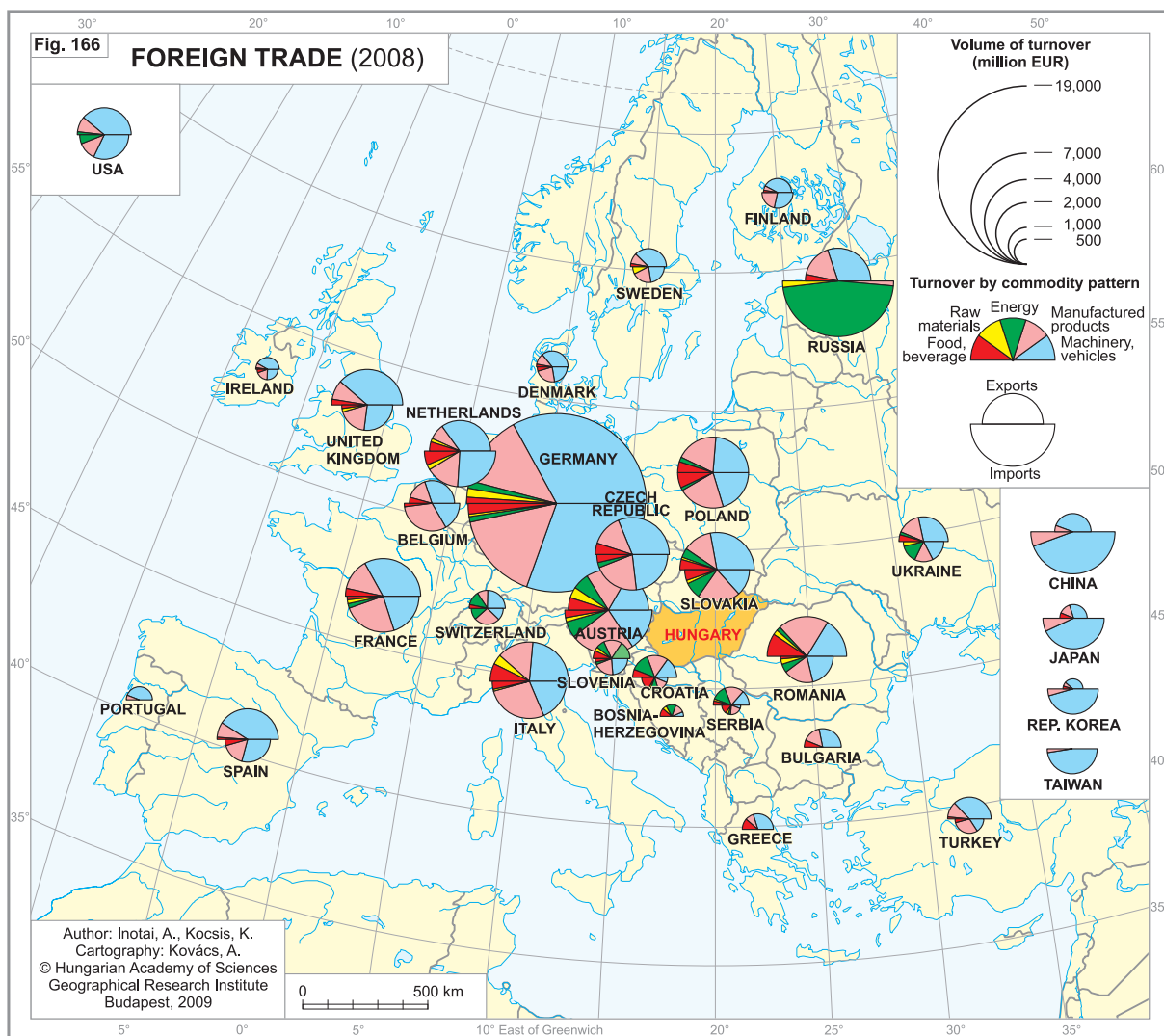
relations was largely complete within a few years, even if this was not without pain in terms of heavy economic and institutional losses. By 1995, 71% of exports were destined for the EU-25 member states whilst 69% of imports came from this region. Further important shifts occurred as a result of Hungary's EU accession in 2004. First, trade started to show particular dynamism with respect to other new member countries. Their share of total Hungarian exports grew from 7.5% in 2003 to 20.9% in 2008. Imports also saw a sharp increase, but their share remained much lower than that for exports (14.7%). Second, the relative share of the EU-15 started to decrease substantially, from over 60%, to the 50% range. Third, the proportion of trade with extra-EU countries grew, for the trade-creating impacts of EU integration were mainly absorbed well before accession. Hungary's extra-EU orientation is a result of its competitiveness, the global interests of multinational companies located in Hungary and the rapid growth in emerging markets (Russia, China and the West Balkans). Following EU accession, Hungary became one of the largest exporters to the extra-EU among all the new members, second only to Poland. Moreover, it is the second largest exporter from the accession states to the ex-Soviet Union (mainly Russia) again following Poland, to the USA (closely following the Czech Republic), to the West Balkans (following Slovenia, thanks to its regional heritage and personal networks) and to China (slightly lagging behind Poland).

Germany has remained by far the most important export market and supplier to the Hungarian economy (*Figure 166, Table 44*). Its share exceeds one quarter of both total exports and imports, which is five times higher than the share of the second biggest export market for Hungary (Italy, closely followed by Romania), and almost three times higher when comparing

Table 43. Hungary's foreign trade (2008)

Region	Export	Import	Balance	Export	Import
	Million EUR			% of total	
EU-27	56,929	49,649	7,279	78.2	68.0
– new EU members (12)	15,230	10,709	4,521	20.9	14.7
Extra-EU	15,911	23,348	- 7,438	21.8	32.0
Total trade	72,838	72,997	- 159	100.0	100.0

Source: Hungarian Central Statistical Office (www.ksh.hu)



the aggregate export and import figure for Russia, Hungary's main supplier of energy. However, it should be taken into account that Hungary's exports to Germany to a growing degree do not reach end-consumers in Germany, rather they are integrated into German assembled products that are subsequently exported around the world. As a result, global economic trends in general, and the growth of emerging markets heavily targeted by German exports in particular, play an important role in assessing the prospects of Hungary's exports. Similarly, at least half the imports from China are not directly sold into the Hungarian consumer market but are exported to other countries either without modification, or after differing degrees of manufacturing input. Thus, in the age of globalisation traditional bilateral trade statistics can often provide ambiguous information.

Trade balance. Following the years of transition, Hungary's overall trade balance

showed a substantial deficit. For over a decade, one of the key strategic tasks of economic policy had been the financing of the trade deficit. Following EU accession several positive shifts occurred. In 2007 and 2008, Hungary's overall trade became balanced (even showing a slight surplus in the first half of 2008). This was due to three, partly contradictory developments. Firstly, in contradiction with the traditional trade theory that predicts a trade surplus for more, and a trade deficit for less developed member countries of a free-trade area, Hungary achieved a substantial surplus with the EU-15. Secondly, Hungary's original deficit with the new member countries of about EUR 500 million in 2003–2004, turned into a substantial surplus of EUR 4.5 billion in 2008. Thirdly, both surpluses were able to finance the growing deficit with non-EU countries. The latter can be divided into two basic categories, with Russia exporting energy, and

Table 44. Hungary's foreign trade by main partners (2008)*

Country	Export	Import	Balance	Export	Import
	Million EUR			% of total	
Germany	19,384	18,523	861	26.6	25.4
Italy	3,864	3,069	795	5.3	4.2
Romania	3,682	1,567	2,115	5.1	2.1
Austria	3,578	4,462	- 884	4.9	6.1
Slovakia	3,464	2,591	873	4.8	3.5
France	3,410	3,192	218	4.7	4.4
United Kingdom	3,287	1,402	1,885	4.5	1.9
Czech Republic	2,940	2,776	164	4.0	3.8
Poland	2,877	2,889	- 12	3.9	4.0
Russia	2,635	6,842	- 4,207	3.6	9.4
Netherlands	2,090	3,274	- 1,184	2.9	4.5
Spain	2,011	1,067	944	2.8	1.5
USA	1,677	1,335	342	2.3	1.8
Ukraine	1,467	1,050	417	2.0	1.4
Belgium	1,238	1,698	- 460	1.7	2.3
Croatia	1,155	270	885	1.6	0.4
Serbia	1,039	244	795	1.4	0.3
China	759	4,177	- 3,418	1.0	5.7
Japan	336	1,903	- 1,567	0.5	2.6
South Korea	247	1,243	- 996	0.3	1.7
Taiwan	42	1,324	- 1,282	0.1	1.8

Remark: * exports and/or imports (above EUR 1 billion).

Source: Hungarian Central Statistical Office (www.ksh.hu) and own calculations.

East Asian countries supplying input raw materials and components for the export oriented manufacturing sector in Hungary (Table 45). As a result, both a huge bilateral trade surplus and deficit situation emerged. In 2008, Hungary's trade with Romania indicated the highest surplus, followed by that with the United Kingdom, Spain, Croatia, Slovakia, Italy and Germany. The highest deficits were recorded in trade with Russia, followed by China, Japan and Taiwan.

Changes in commodity pattern. During the time of the change of regime, Hungarian exports were extremely divided structurally, characterised by high-tech exports to the CMEA (e.g. machinery, electrical and electronic goods, optical and precision instruments, pharmaceuticals,

etc.), in contrast with labour and raw material intensive exports to more developed countries (e.g. textiles, clothing, steel and petrochemicals). By 2008, as a result of more than a decade of structural transformation and largely due to the multinational companies located in Hungary, the commodity pattern of exports had changed dramatically. Today, more than 60% of total exports (the same figure for the EU and 62% for the extra-EU region) consist of machinery and vehicles, to a large extent comprising medium and high-technology goods (Table 46). Other manufactured products represent more than one quarter of total exports, while agricultural goods have a share of 6.5%, as a result of structural shifts, but also as a consequence of seri-

Table 45. Balance of Hungary's foreign trade (main bilateral surplus and deficit relations, 2008)*

Country	Export		Country	Import	
	million EUR	coverage**		million EUR	coverage**
Romania	2,115	235	Russia	4,207	39
United Kingdom	1,885	234	China	3,418	18
Spain	944	188	Japan	1,567	18
Croatia	885	428	Taiwan	1,282	3
Slovakia	873	134	Netherlands	1,184	64
Germany	861	126	South Korea	996	20
Italy	795	105	Austria	884	80
Serbia	795	426			

Remarks: *Surplus and deficit position (above EUR 500 million).

**Export/import coverage (imports = 100).

Source: Hungarian Central Statistical Office (www.ksh.hu) and own calculations.

Table 46. Commodity pattern of Hungary's foreign trade (2008)

Commodity groups	Export	Import	Balance	Export	Import
	million EUR			% of total	
Total trade	72,838	72,997	- 159	100.0	100.0
Food, beverage	4,875	3,377	1,498	6.7	4.6
Raw materials	1,712	1,422	290	2.4	1.9
Energy	2,770	9,378	- 6,608	3.8	12.8
Manufactured products	19,391	23,074	- 3,683	26.6	31.6
Machinery, vehicles	44,090	35,746	8,344	60.5	49.0
EU-27	56,927	49,649	7,278	100.0	100.0
Food, beverage	3,943	3,097	846	6.9	6.2
Raw materials	1,508	978	530	2.6	2.0
Energy	1,747	2,043	- 296	3.1	4.1
Manufactured products	15,544	19,791	- 4,247	27.3	39.9
Machinery, vehicles	34,185	23,739	10,446	60.1	47.8
Extra-EU	15,911	23,348	- 7,437	100.0	100.0
Food, beverage	933	281	652	5.9	1.2
Raw materials	204	444	- 240	1.3	1.9
Energy	1,023	7,334	- 6,311	6.4	31.4
Manufactured products	3,847	3,283	564	24.2	14.1
Machinery, vehicles	9,905	12,006	- 2,101	62.3	51.4

Source: Hungarian Central Statistical Office (www.ksh.hu) and own calculations

ous mistakes when reforming agriculture after 1990. When compared to other new EU member countries (and also to some more established

ones), Hungarian exports are structurally more advanced and contain the highest share of high-tech products regionally.

Direct Capital Exports

Overall figures. By the end of 2007, Hungary had the second highest capital export figure among the new EU members, with a stock of more than USD 18 billion (or EUR 13 billion, based on current exchange rates) (Table 47). The figure for Poland was slightly higher (USD 19.6 billion), Hungary however had a stock threefold

Table 47. Outward (export) stock of foreign direct investment by selected countries (million USD, 2007)

Capital exporting country	Outward stock	
	Total	Per capita
Greece	30,799	2,752.4
Poland	19,644	515.3
Hungary	18,282	1,817.3
Czech Republic	6,971	674.8
Slovenia	6,123	3,031.2
Ukraine	6,077	130.7
Croatia	3,495	787.2
Slovakia	1,609	298.0
Romania	917	42.6
Bulgaria	599	78.2

Source: UNCTAD, World Investment Report 2008 (www.unctad.org) and own calculations

higher than that for Slovenia, 2.6 times higher than that for the Czech Republic and more than tenfold that of the stock registered by Slovakia. These figures are not only the product of several aspects of their respective economic policies, but more importantly the microeconomic maturity of their individual economies. It should be noted that capital export data is not complete, as it does not include small investment volumes. The majority of small Hungarian companies present abroad do not fall into the category of announcing capital exports. On the other hand, mirror statistics from some other countries seem to downgrade the importance of the presence of Hungarian capital (e.g. Romania).

Turning to capital imports, Hungary was a pioneer during the 1990s with respect to the amount of foreign capital attracted, the structure of foreign investments and the degree of economic and capital liberalisation. According to end of 2007 data, foreign direct capital stock in Hungary amounted to USD 97.4 billion, slightly

less than that of the Czech Republic (USD 101.1 billion), one third more than that of Romania (USD 60.9 billion) and almost 2.5 times that of Slovakia (USD 40.7 billion) (Table 48).

Table 48. Inward (import) stock of foreign direct investment from selected countries (million USD, 2007)

Capital importing country	Inward stock	
	Total	Per capita
Ireland	187,184	42,833.9
Denmark	146,632	26,855.7
Poland	142,110	3,728.0
Portugal	114,192	10,762.7
Czech Republic	101,074	9,784.5
Hungary	97,397	9,681.6
Finland	85,237	16,112.9
Romania	60,921	2,827.0
Greece	52,838	4,721.9
Croatia	44,630	10,051.8
Kazakhstan	43,381	2,854.0
Slovakia	40,702	7,537.4
Ukraine	38,059	818.5
Bulgaria	36,508	4,766.1
Slovenia	10,350	5,123.8

Source: UNCTAD, World Investment Report 2008 (www.unctad.org) and own calculations.

Geographic orientation of outward FDI. According to official data released by the National Bank of Hungary, total Hungarian capital stock abroad amounted to EUR 11.3 billion at the end of 2007, with a clear concentration in Europe (92%). Within Europe, neighbour- ing countries proved to be the main targets for

Hungarian investment, the list for which is clearly led by Slovakia, with more than one quarter of total investment stock, and followed by Croatia, Bulgaria, Romania, Macedonia and Serbia (Table 49). Three other European countries (United Kingdom, Netherlands and Switzerland) proved to be important destinations for Hungarian capital, not only for direct investment reasons but also with a view to further transfer of capital.

Sectoral composition of the stock of outward Hungarian FDI. More than half of Hungarian investments abroad are concentrated on the service sector. Real estate, economic services with its share of 28.3% lead the list, followed by oil- and energy-related investments (22.1%) (Table 50). Moreover, major investments have been made in real estate, trade, mining, and some manufacturing industries. Based on the sectoral breakdown, and due to the small size of the Hungarian economy, it is not difficult to identify the major capital exporting companies. They include MOL (energy and oil), Hungarian Aluminium Co. (mining), OTP & MKB (banking and finance), Trigránit (construction and trade), Hungarhotels, Danubius, Hunguest Hotels (real estate and hotels), Magyar Telekom (telecommunications), Gedeon Richter (pharmaceuticals), Videoton (electronics), Dunapack (packaging), CBA (groceries) and several other rapidly expanding companies (e.g. Zalakerámia, Fornetti, etc.).

*Table 49. Stock of Hungarian capital exports by main countries (2006, 2007)**

Country	Stock (million EUR)		% of total	
	2006	2007	2006	2007
Slovakia	2,537	2,796	27.5	24.8
United Kingdom	479	1,392	5.2	12.3
Croatia	970	1,055	10.5	9.3
Bulgaria	431	577	4.7	5.1
Netherlands	1,060	561	11.5	5.0
Romania	430	520	4.7	4.6
South Korea	..	496	..	4.4
Switzerland	510	482	5.5	4.3
Macedonia	405	475	4.4	4.2
Serbia	121	433	1.3	3.8
Cyprus	265	413	2.9	3.7
Ukraine	213	306	2.3	2.7
Montenegro	245	267	2.7	2.4
Poland	266	242	2.9	2.1
Russia	140	161	1.5	1.4
USA	..	126	..	1.1
Czech Republic	140	122	1.5	1.1
Italy	..	106	..	0.9
Total capital stock abroad	9,224	11,293	100.0	100.0

*Including countries with Hungarian capital export stock over EUR 100 million.
Source: National Bank of Hungary (www.mnb.hu).

Table 50. Hungary's outward capital stock by main sectors (2006, 2007)

Sectors	Outward capital stock				Main Hungarian investors
	million EUR		%		
	2006	2007	2006	2007	
Agriculture, forestry	4	1	0.0	0.0	..
Mining	890	991	9.6	8.8	..
Manufacturing	2,983	3,413	32.3	30.2	..
– oil, coal	2,350	2,501	25.5	22.1	MOL
– electrical machinery	57	340	0.6	3.0	Videoton
– chemicals	250	249	2.7	2.2	..
– non-ferrous metals	114	175	1.2	1.6	..
Construction industry	22	39	0.2	0.3	Trigranit
Services	5,102	6,548	55.3	58.0	..
– trade, repair	875	1,053	9.5	9.3	Trigranit, CBA
– hotels, gastronomy	61	72	0.7	0.6	Hungarhotels
– transportation, storage telecommunications	227	241	2.5	2.1	..
– financial services	2,672	1,917	29.0	17.0	OTP, MKB
– real estate, economic services	1,246	3,192	13.5	28.3	Hungarhotels
Other sectors	301	223	2.7	2.6	..
Total FDI stock	9,224	11,293	100.0	100.0	..

Source: National Bank of Hungary (www.mnb.hu)