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Contribution to the assessment of Hungarian economy and territorial structure in the light of the accession to the European Union

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Introduction

In May 2004, nearly fifteen years after the regime change Hungary – together with nine other (mostly East-Central European) countries – has become member of the European Union. Around 1990, taken by the euphoria of the change of regimes the time required for accession was estimated to be shorter than it took actually; many had thought Hungary could become a full member of the EU as early as in the 1990s. The prolonged accession process indicated that the integration of the post-communist European countries into a Western European organisation was a delicate issue as neither the countries to join nor the European Union to receive them were ready for it and might not be ready for it even now.

It is worth mentioning, however, that Hungary's accession to the EU within a short time was more than a mere illusion in the early 1990s and it did have some real and solid basis. Hungary compared to all the other countries concerned, emerged from the communist era with the best reputation and served as a model of the change of regimes in the early 1990s.

The favourable position of Hungary has vanished with time and the country levelled with the average of East-Central European countries in terms of key economic indicators, occasionally even falling behind them. On the basis of the foregoing, the following questions arise:

– What processes have characterised the Hungarian economy since the change of regime and what structural and spatial consequences did they entail?

– What position does Hungary occupies in the European Economic Area as a new member of the European Union?

This study is intended to provide answers to these questions.

Structural and territorial characteristics of the economic transformation

Since the change of regime, GDP indicating the output of the economy has increased by some 10 per cent that makes an increase of much less than 1 per cent on a yearly average. Apparently it is a rather modest performance but in the context

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of the underlying processes this result should be assessed more delicately. In this relation the fact should be taken into account principally that this period of mere fifteen years comprises four distinctly different phases:

– Between 1990–1993 a period of transformational recession as named by Kornai, J. (1993) took place in Hungary which can be called rightly a crisis period: during these four years GDP fell by more than 18 per cent and economy had to recover from this abyss to reach today's level. From among the various reasons for the crisis the loss of Eastern European markets after the disintegration of the COMECON, the structural and efficiency problems inherited from the communist era and effects of a worldwide recession are to be highlighted.

– This period of contraction of the economy was followed by a phase of stabilisation, and between 1994 and 1996 the output increased though in a moderate way.

– This period laid the foundation for economic recovery (1997–2000), when the annual growth of GDP remained over 4 per cent throughout the period reaching an overall increase of the economic output of 20 per cent. This was the period that made up for the losses incurred between 1990–1993.

– The period between 2001 and summer 2004 was characterised by a moderate economic growth with annual increase of GDP by 3.0–3.5 per cent. In the first quarter of 2004 a growth of more than 4 per cent was recorded, which, however, was not expected to last for long.

These fluctuating processes in the Hungarian economy were accompanied by a profound structural adjustment; the shift from the centrally planned economy to market economy brought about a significant change in the sectoral structure of the economy. The most adversely affected sector was undoubtedly farming: in the late 1970s the Hungarian agricultural sector was in the forefront of world agriculture in terms of both efficiency and productivity. When exposed to the challenges of market economy, however, it could not comply with them. By 2001, the GDP generated in farming had dropped to 70 per cent of that achieved in 1989. Concurrently, the sustaining capacity of the sector has shrunk dramatically: nowadays a mere 7–8 per cent of the active earners is employed in agriculture.

Due to the prolonged recession the output of the construction industry contracted significantly (by 15 per cent) as well as that of commerce and catering did (by 8 per cent each). These sectors experienced the most serious decline in the early 1990s but later they escaped from the collapse. In this period industrial output also suffered a significant setback. More recently manufacturing has become the principal growth sector of the Hungarian economy and its output in 2001 exceeded that in 1989 by more than 22 per cent. The general transformation of the industrial sector entailed parallel processes of deindustrialisation and reindustrialisation whereby along with the vanishing of incompetitive factories and industries, market-oriented industries capable of high standard output were put in operation. So today's Hungarian industry is mainly characterised by sophisticated and efficient manufacturing.

It is undoubtedly the tertiary sector, which has most benefited from the economic transition, with practically all its branches having been capable of growth. This applies primarily to the market-related services (e.g. financial services); their performance grew by more than by 30 per cent between 1989 and 2001.

The transition outlined above caused the contributions of the various sectors to GDP to change significantly. The 1997 data already showed the absolute dominance of tertiary sector, at that time accounting for 53 per cent of GDP, with the industry producing nearly 29 per cent and agriculture and forestry somewhat higher than 10 per cent of GDP. Figures for 2001 show further contraction of the contribution of farming (4.4 per cent), while the share of the tertiary sector rose to over 60 per cent (Pitti, Z. 2003).

Following the change of regime, Hungarian economy underwent not only a structural but also territorial transformation. The transition from command economy to market economy has led to significant change also from the spatial aspect. In the communist era considerable efforts were being made to reduce territorial disparities, which yielded some results. These are illustrated by the estimated GDP per capita for counties in the 1970s. Although the maximum value (for Budapest) is 2.35 times exceeded the minimum (for Szabolcs-Szatmár-Bereg County), all the other counties were characterised by figures of relative uniformity (Enyedi, Gy.–Horváth, Gy. 2002). This is also shown by the fact that each part of the country had regions of more developed economies, with the west to east slope not being a characteristic feature of the time (*Figure 1*).

The balanced structure pursued by the communist approach for regional and economic development did not comply with the challenges of the market economy and was inevitably replaced by a territorial structure of different character. The processes of market economy made it clear within a short period of time which were the regions capable of structural adjustment in the new circumstances and which ones were not. Under the new conditions therefore certain areas were upgraded, while others became downgraded and their respective capacities to generate production value have changed considerably. From this aspect, the most important change has been the increase in territorial contrasts. Based on the data of per capita GDP between the maximum value (represented by Budapest) and the minimum one (Szabolcs-Szatmár-Bereg County) a threefold difference was recorded in 1994, while this figure had risen up to 3.6 times by 2001 (Bruckner, J.–Gether, I. 2003). The extraordinarily high value-generating capacity of the capital has resulted in a disbalanced spatial pattern of the regional economy. Apart from the national capital only 2–3 Transdanubian counties could exceed the national average of per capita GDP (*Figure 1*).

Similar polarisation could be observed also on NUTS-2 level: of the seven regional units, Central Hungary (Budapest and Pest County) produced 43 per cent of the Hungarian GDP and this ratio is still on the rise. As far as the contribution of other regions was regarded there was hardly any difference between them with shares changing between 7–11 per cent.

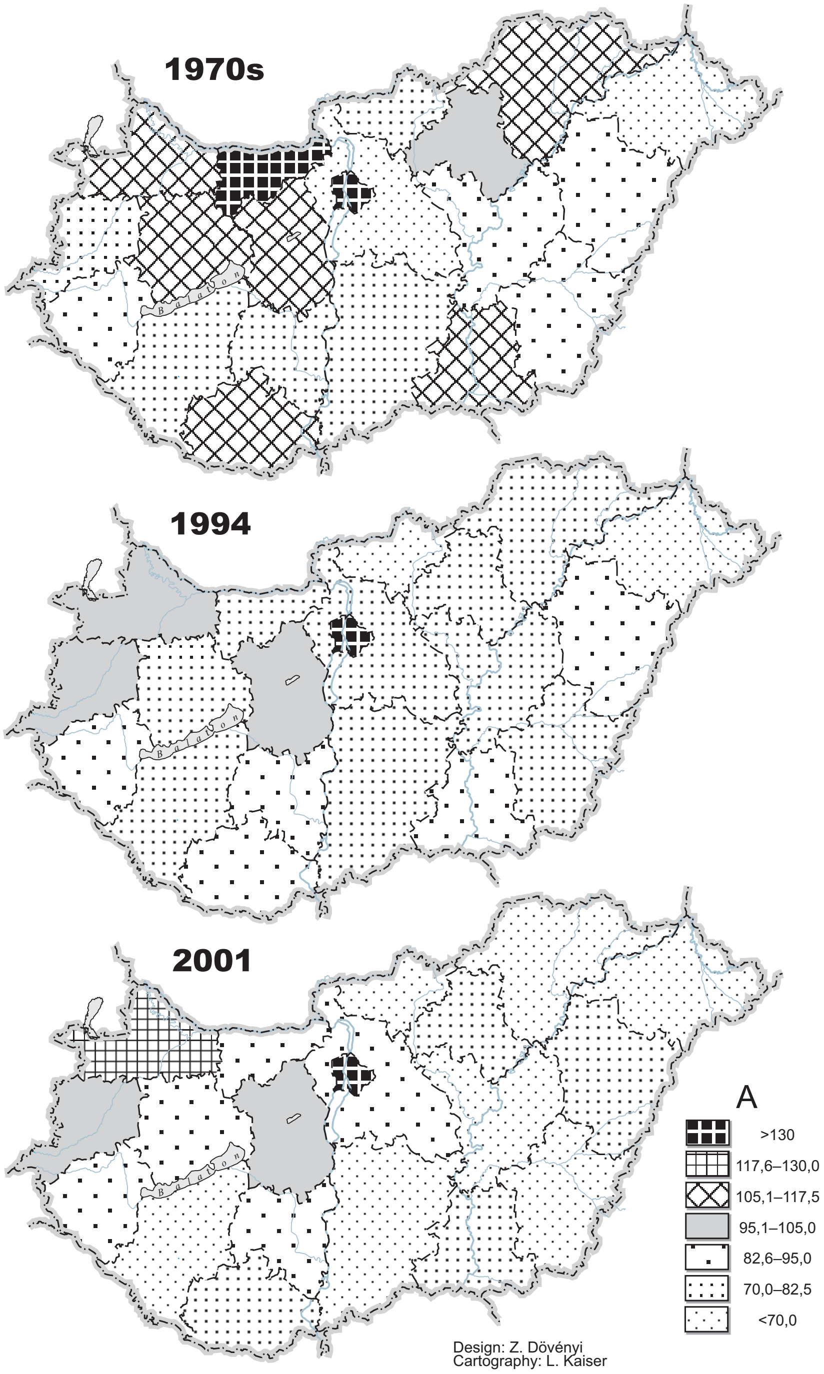

Fig. 1. GDP per capita in Hungary. – A = Specific values of GDP by counties as compared to the national average (Hungary = 100)

The economic and social changes subsequent to the change of regime have rearranged the territorial structure of the country. The key characteristics are clearly shown by the unemployment rates (*Figure 2*). The consistently high unemployment rates in the northern, eastern and north-eastern parts of the country with a combined area accounting for ca one one-third of Hungary's territory indicate that this region is suffering from severe economic and social problems. This lagging region is roughly separated from the more developed parts of the country by the line to be drawn approximately between Balassagyarmat and Mezőhegyes. Currently, this is the only important spatial structure line in Hungary having been referred to in other studies as well (NEMES NAGY, J. 1998).

As the effects of spatial processes cannot always be assessed unambiguously and they they are to be examined from different aspects, a number of territorial structure models can be built at a national scale. One possible version is shown in *Figure 3*. It suggests that Hungary's spatial structure is a kind of mosaic pattern, wherein both the crisis regions having emerged historically and those that came about due to the change of regime can be found. The counter-part is represented by the areas upgraded following the change of regime: Budapest and its wider surroundings, as well as areas along the Austrian border. There are a number of areas with potentially favourable perspective and also areas whose future is uncertain. All this means that favourable and/or unfavourable spatial processes might have been able to reshape the territorial structure of the country in the future.

Direct foreign investment has played significant role in shaping the present spatial pattern of Hungary and in the transforming the country's economy in general. This was a characteristic feature mainly during the 1990s and its strong socio-economic impact is indicated by the fact that without the influx of foreign investment between 1992 and 1999, Hungarian GDP would have been lower now at least by 15 per cent. Employment rate would have remained by 5 per cent, domestic consumption by ca. 10 per cent and tax revenues by some 20 per cent below their current level (VÉRTES, A. 2003).

Following the change of regimes in the East-Central European countries, the primary target country of foreign direct investment was Hungary. Even in absolute terms, the figure for FDI in Hungary was the highest of all in 1997 and it was only afterwards that Poland and later the Czech Republic enjoyed a highest influx from these funds. The success achieved initially and within a short time was attributable primarily to the decisive measures taken during the communist era. It was Hungary within the eastern bloc to make the maximum efforts for its integration into world economy (e.g. membership in IMF since 1982) and joint ventures could be found. The legal security related to the foregoing, a wave of privatisation to attract foreign investors and the availability of cheap and qualified labour force had a combined effect to channelise foreign investment of more than 20 billion USD to Hungary in the 1990's. Even though this momentum suffered a setback in the past years, until late 2002 Hungary received some 24.5 billion USD in foreign investment accounting for 13 per cent of the FDI of the 20 Central and Eastern European countries (CSÁKI, GY. 2004).

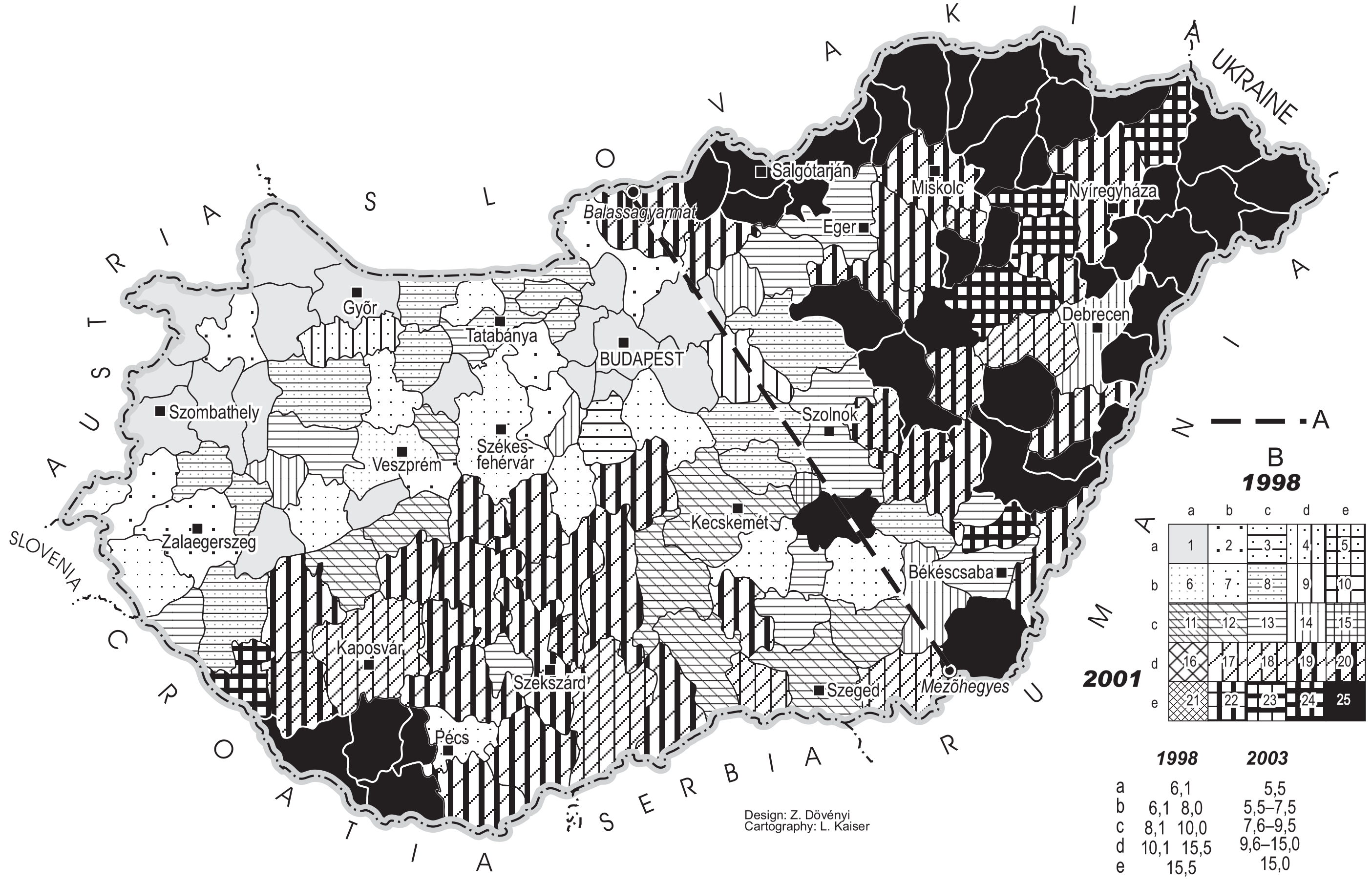

Fig. 2. Change in the rate of unemployment in Hungary between 1998 and 2001 – A = Structure line; B = Deviations of the level of unemployment by microregions from the national average in 1998 and 2001 (per cent): a = very low; b = low; c = medium; d = high; e = very high

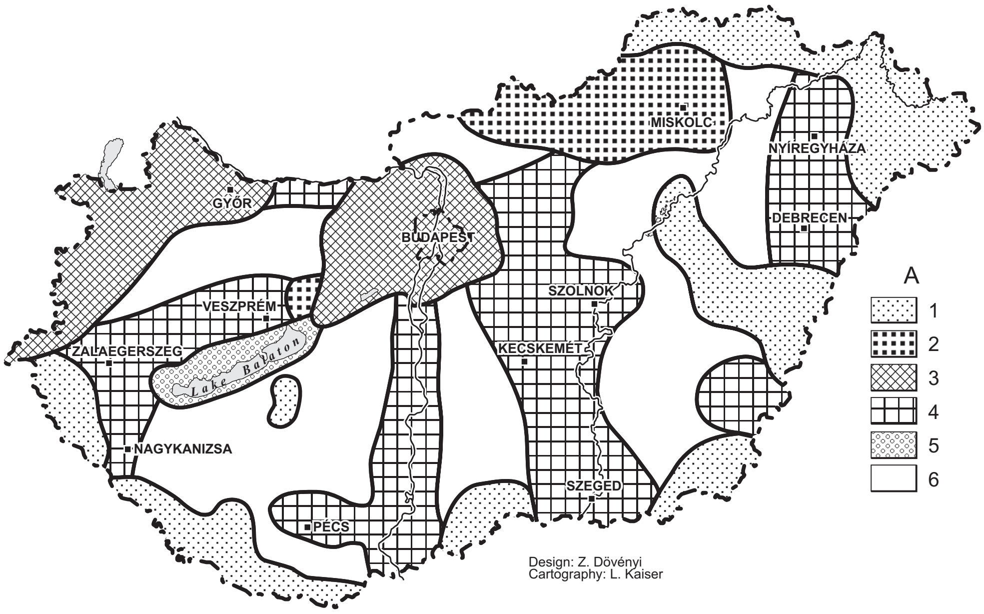

Fig. 3. Hungary's model of regional structure. A = Types of regional pattern: 1 = Traditional lagging regions; 2 = Regions of recent industrial decline; 3 = Upgraded regions; 4 = Regions with development potentialities; 5 = Specific region (Balaton area); 6 = Regions with ambiguous future

This inflow of foreign capital however has not dynamised the Hungarian economy in general but exerted a highly differentiated impact in terms of territorial distribution. This resulted in foreign investment with a marked concentration in specific areas of the country. 60–65 per cent of FDI was received by Budapest and its close vicinity and ca 15–16 per cent of it went to counties located along the Austrian border. It means that four-fifth of all foreign investment has accumulated in hardly one quarter of the country's territory (Barta, Gy. 2000). This high concentration also suggests that foreign investment contributed to a large extent to the differentiated spatial structure of the national economy.

Hungary in the European Economic Area

Hungary's accession to the European Union meant among others that the country's close integration to Europe's more developed part has been acknowledged. This naturally does not mean the end of the integration process from which Hungary – just like the other countries that joined in May 2004 – is rather far away. Therefore, what we are to examine is an interim status in a long process.

The shift of focus in the orientation of Hungary's economy from Central and Eastern Europe to the European Union started as early as in the second half of the

1980s, still during the communist era. The real breakthrough however came with the change of regime (1990) share of the EU in the foreign trade turnover of Hungary has been increasing steadily (*Figure 4*). Its importance is indicated by the fact that in 2002, 56 per cent of imports originated from, and 75 per cent of exports were destined to, the EU.

This dramatic rearrangement of economic relations naturally was not free from problems, which is indicated by the fact that it had played a major role in the transformational recession mentioned above. The dissolution of COMECON in 1991 was an important milestone in the reorientation of foreign trade relations but Hungary's abrupt turn from its Central and Eastern European foreign trade partners was not so inevitable as it actually happened. Today it seems clear that Hungary abandoned part of its markets unnecessarily in this part of Europe at the beginning of the 1990s.

When examining Hungary's foreign trade balance over the studied period, the crisis-stricken character of the years following the change of regime becomes apparent. The balance was negative in almost all relations and the trend only reversed in 1997 when the balance with the EU turned positive and has remained so up to now featuring expansion in exports. The significance of a positive foreign trade balance with the EU is also highlighted by the fact that in all other relations the balance is in the red. In other words, for Hungary the economic relations with the EU were of vital importance even before accession (*Figure 5*).

Of the countries of the European Union the Federal Republic of Germany is of primary importance for Hungary; the state of health of the German economy has been decisive as regards the positions of Hungary. Another important consideration is that Hungary's trade balance in this relation is positive, unlike that with the post-communist countries having joined the EU in 2004, which appears to be negative. This is somewhat going to deteriorate also the balance with the enlarged EU (*Figure 6*).

Besides familiarisation with the close economic relations described above it is noteworthy to learn what the Hungarian membership means to the EU and what is Hungary's standing among the EU-25. The bare facts suggest that Hungary represents 2.3 per cent of the population of the enlarged EU while it produces a mere 0.7 per cent of GDP. Comparison of the two data in itself indicates that the output of Hungary is lagging far behind the EU average: Hungary's per capita GDP equals to 53 per cent of the average of the EU-15. Of the countries having joined the EU together with Hungary, Slovenia and the Czech Republic have higher indices (69 per cent and 62 per cent, respectively). This wide gap is largely attributable to the fact that over the past 15 years since the change of regime, Hungary has hardly been able to catch up to the EU-average: in 1990 the relative GDP equalled to 49 per cent of the EU's average at the time.

Behind the low specific values of GDP however there are significant regional disparities and this fact further elaborates our understanding of the situation. Of the seven NUTS-2 regions of Hungary, only Central Hungary (Budapest and Pest County) has a GDP per capita figure exceeding 75 per cent of the EU-15 average, all the other regions remain far below this figure (Kovács, T. 2004). This means that the most of Hun-

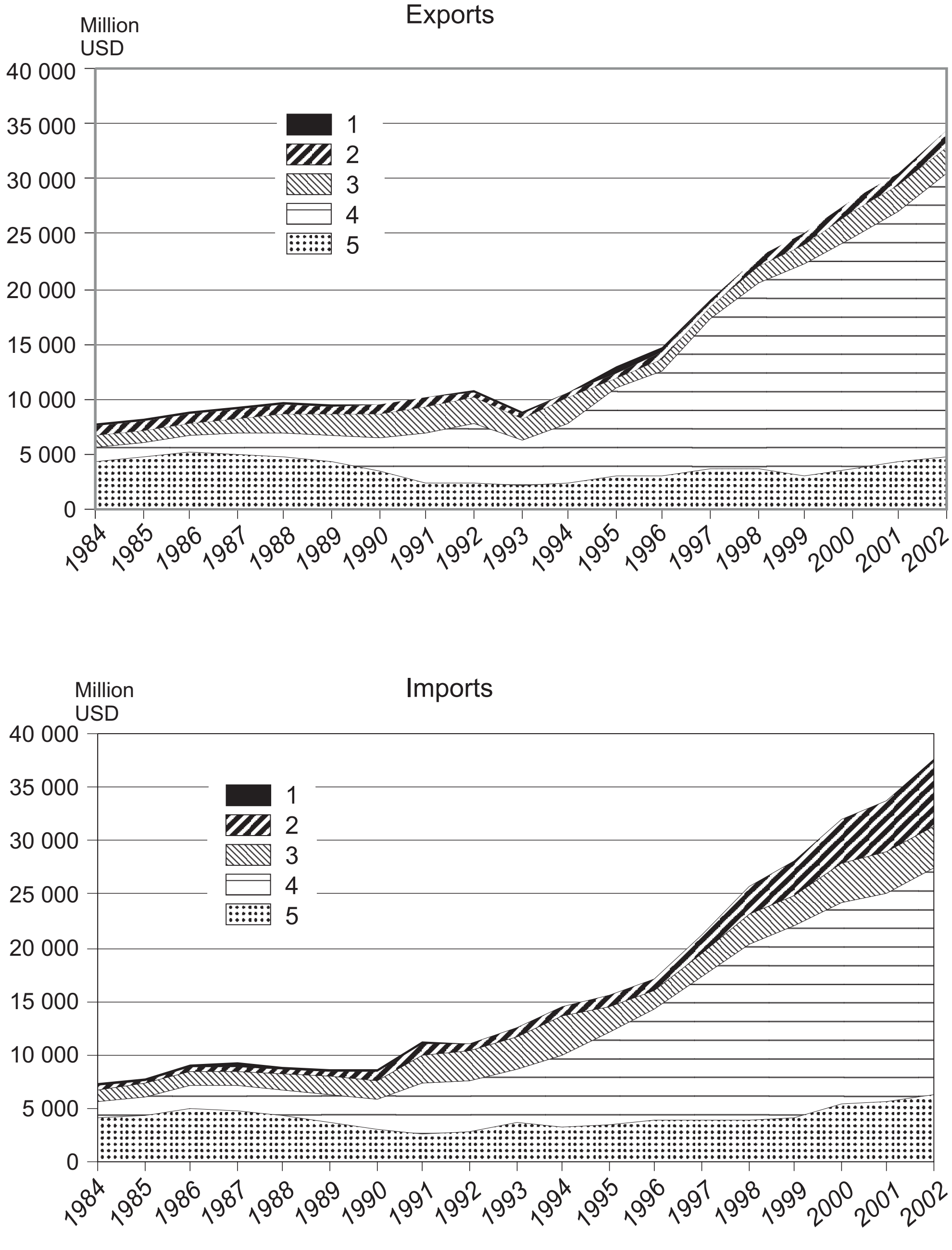

Fig. 4. Hungary's foreign trade turnover by groups of countries (1984–2002). – 1 = miscellaneous; 2 = developing countries; 3 = developed countries excluding the European Union (formerly European Communities); 4 = EU (EC) 5 = East-Central Europe

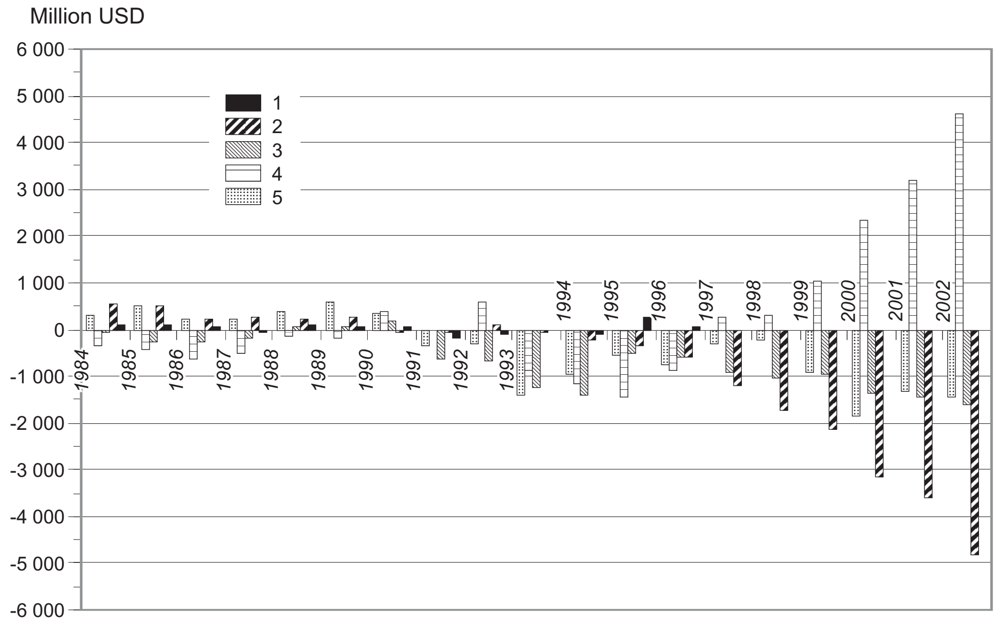

Fig. 5. Hungary's foreign trade balance by groups of countries (1984–2002). (For the legend see *Fig. 4*)

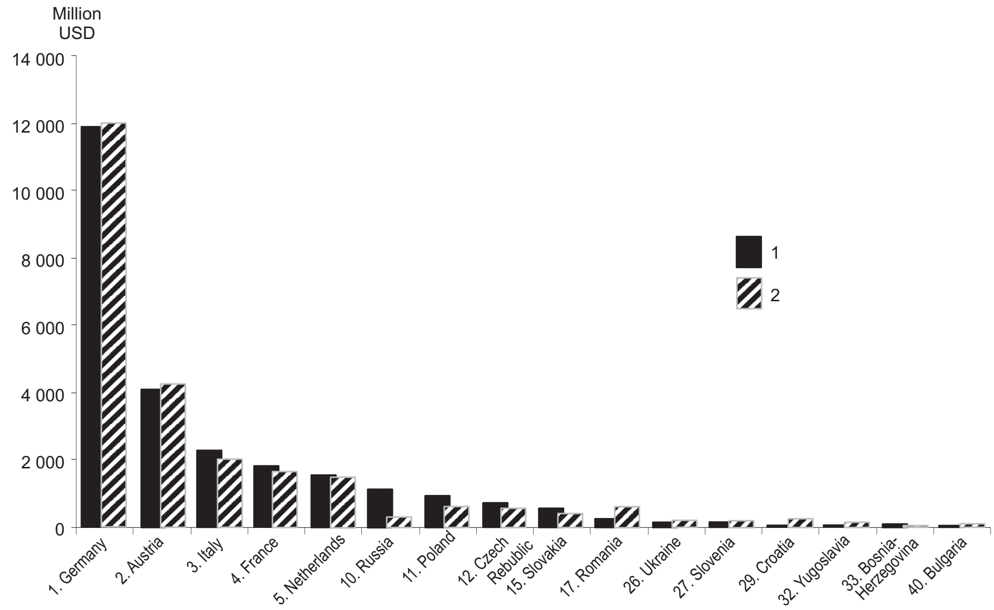

Fig. 6. Hungary's most important partners of foreign trade (2002). – 1 = imports; 2 = exports

gary's territory may well be eligible to receive financial assistance from the regional development funds of the EU even in the long run.

The comparison of other data concerning Hungary (e.g. productivity, wages) with the corresponding EU figures suggests that it will take several decades for the country to catch up to EU levels. Hungary and the recently joined post-communist countries will constitute the periphery of the most developed Western-European countries for a long time to come. In the forthcoming period modernisation processes that started earlier are to be accomplished in Hungary. This, however, will yield further advances rather on other Eastern European non-EU member countries only, narrowing the gap with Western Europe promises to last much longer.

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