

FOR OFFICIAL USE ONLY

Nº 3

ECONOMIC INTELLIGENCE REPORT

STABILITY OF THE HUNGARIAN ECONOMY



CIA/RR 160
December 1958

CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

ECONOMIC INTELLIGENCE REPORT

STABILITY OF THE HUNGARIAN ECONOMY

CIA/RR 160

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

FOR OFFICIAL USE ONLY

Page Denied

FOR OFFICIAL USE ONLY

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Introduction	3
II. History of Economic Policy and Its Results (1950-57)	4
A. Allocation of Resources Within Industry	7
B. Inefficiency of Investment	8
C. Changeability of Economic Policy	9
D. Results of Economic Policy	10
1. Growth of National Income	10
2. Foreign Trade and the Availability of Raw Materials	14
III. Impact of the 1956 Revolt	16
IV. Recent Developments in the Hungarian Economy (1957-58)	17
A. Policy Shift to Increased Consumption and Its Implementation	17
1. Increases in the People's Income and Availability of Consumer Goods	17
2. Recovery of Production in 1957	19
3. Retail Trade	20
4. Housing	22
5. Assistance from the Soviet Bloc	22
B. Foreign Trade Since the Revolt	24
1. Changed Pattern	24
2. Balance of Trade	25
3. Source of Raw Materials and Change in the Com- modity Composition of Trade	27
4. Loans from the Soviet Bloc	27
C. Capital Investment	30
1. Rate	30
2. Distribution	30
3. Maintenance	35

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

	<u>Page</u>
V. Future Economic Problems	35
A. Prevention of Inflation and Achievement of a Balanced Budget	35
B. Achievement of a Balance of Trade in 1958	38
C. Requirements for Consumption and Export in 1958	38
D. Hungarian Ability to Produce an Export Surplus During the Decade of the 1960's	39
E. Conflict Between Current Economic Policy and Long- Term Communist Policy	45

STAT

Tables

1. Percentage Distribution of the Hungarian National In- come, 1949-55	5
2. Hungarian National Income, by Sector of Origin, 1949-55	11
3. Hungarian National Income, 1954-58	14
4. Comparison of Selected Indexes of Gross Production in the Hungarian Economy, Before and After the October 1956 Revolt	20
5. Hungarian Output of Selected Industrial Materials, Before and After the October 1956 Revolt	21
6. New and Reconstructed Dwellings Built in Hungary, 1950-57, and Origin of Financing, 1955, 1957, and 1958-60 Plan	23
7. Hungarian Trade with the Soviet Bloc and with Non-Bloc Countries, 1955-57	26

FOR OFFICIAL USE ONLY

	<u>Page</u>
8. Percentage Distribution of Hungarian Trade, by Class of Product, 1955-57	28
9. Long-Term Loans to Hungary by Other Soviet Bloc Countries, 1956 and 1957	29
10. Gross Capital Investment in Hungary, 1953-58	31
11. Percentage Distribution of Hungarian State Capital Investment, by Sector, Selected Periods, 1950-60	33
12. Hungarian Foreign Trade and Adjustment Between Home and Foreign Trade Prices, 1949 and 1954-56	37
13. Hungarian Production of Selected Basic Commodities, 1955, 1957, and 1960 Plan	41
14. Hungarian Foreign Trade in Principal Export Products, 1955-57	42

- v -

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

STABILITY OF THE HUNGARIAN ECONOMY*

Summary and Conclusions

Hungary is not promoting a type of development that would take full advantage of its resources. Rather, Hungary is committed to a program of promoting heavy industry and exporting its products first to the Soviet Bloc, then to countries outside the Bloc. Hungary now has a vested interest in heavy industry which demands further expenditure in order to utilize fully the plant created by past investment and to reduce the unit cost of operation. For the long run, also, Hungary is committed to socialize agriculture, and this commitment prevents full and effective assistance to the peasant owners, who now hold nearly three-fourths of the arable land compared with about two-thirds before the revolt. It is unlikely, therefore, that Hungary, under existing conditions, will succeed in making the most of its potential. Instead, it probably will continue for the next decade to trade on unfavorable terms, struggling to pay for its raw materials, to discharge its foreign debt, and to make additional capital investment without being able to improve its standard of living to any substantial degree. As long as Communist preconceptions and ideas prevail and the USSR continues to dominate Hungary's economic policy, no radical change in economic policy appears to be probable.

Hungarian economic policy since the revolt of October 1956 has tended to favor the consumer more than previously, in that the real incomes of wage earners and farmers have been increased. Moreover, the condition of the peasants has been improved by the abolition of compulsory deliveries of agricultural products. These gains were made possible largely through assistance from the USSR and other countries of the Soviet Bloc after the revolt. The regime has declared its intention of retaining the gains made in the standard of living by maintaining the relatively high real income of 1957. It also expects to continue free market purchases and the contract system for agricultural procurement and promises to use inducement rather than force on the independent peasant farmers to increase membership in cooperative farms. In particular, it intends to make the cooperatives examples of productive and profitable farming, which they were not in the past. In spite of these policy decisions, however, indications are that the state has already found it difficult to maintain

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 October 1958.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

the 1957 level of personal consumption and that various measures to reduce the income of both wage earners and peasants have been taken.

New loans to Hungary from other members of the Soviet Bloc, for use in 1958-60, are so far limited to an investment credit of 440 million rubles from the USSR, which seems to be entirely earmarked for the purchase of capital equipment. In 1958 and succeeding years, therefore, Hungary is forced to rely more heavily on its own output for internal needs and must produce a sufficient surplus over internal requirements to balance foreign trade and provide for the most essential capital investment. During the decade of the 1960's, the additional financial burden of repaying loans made to Hungary by other members of the Soviet Bloc will require a much greater export surplus than in the past.

The Hungarian planners acknowledge that grave mistakes in judgment were responsible, to a large extent, for the declining rate of growth of the economy which developed by 1953 and which resulted in the change of policy in that year. They point to the too-rapid pace of industrialization as the cause of an unbalanced economy, lagging agriculture, and the low standard of living. By implication, there has been some recognition of a more fundamental error of planning which directed the bulk of the capital investment toward industries for which Hungary had no raw material resources at the expense of agriculture. At present, Hungary has obtained a steadier flow of raw materials than in previous years and has started to produce domestically some of the needed materials previously imported. These materials include straw cellulose for paper stock, synthetic yarn for textile manufacture, and a low-grade metallurgical coke to be used with imported coke in blast furnaces.

Better arrangements for import of materials do not necessarily make production profitable. In order to produce economically, several changes would be necessary, such as the following: (1) modernization of machinery and equipment and improved industrial technology; (2) concentration of industrial labor on the advanced processing industries which use much labor and little material, in order better to utilize Hungary's fairly abundant and highly skilled labor force; (3) mass production of a smaller number of specialized export products in order to reduce costs and improve the regularity of supply for export; (4) greater investment in the food industries in which Hungary has both long experience and natural superiority; and (5) priority attention to agriculture, in order both to improve the food supply of the population and to furnish material for the food industries as well as for export.

FOR OFFICIAL USE ONLY

I. Introduction.

In the years of Communist rule preceding the revolt of 1956, the Hungarian national income (Communist concept) failed to show a steady rate of growth in spite of the high level of capital investment. The official index of national income, based on constant prices, dipped in 1952, 1954, and 1956. The trend of growth after 1950 was at a decreasing rate because of the failure of agricultural production to advance in accordance with national and export requirements and because of obstructions to industrial production caused principally by increasing scarcity of industrial materials and electric power. The change of economic policy in 1953 calling for greater attention to the supply of basic industrial and agricultural materials did not bring an immediate improvement and may even have been partly responsible for the sharp setback in 1954. After 1954, however, national income increased until late 1956, when it was affected by the revolt. With greater attention to the development of agriculture, fuel, and power, a degree of recovery in agricultural and industrial output occurred, and there was a consequent improvement in the crucial balance of foreign trade in 1955 and the first three quarters of 1956. Agricultural recovery was also greatly aided by good weather in 1955, which helped to make it the best crop year since World War II. This recovery of a balanced trade position was hardly completed, however, before the revolt of October 1956 halted practically all production for the remainder of the year. In 1956, Hungary's trade debt with non-Communist countries had ceased to rise, but loans from other members of the Soviet Bloc were necessary to pay off the debt already incurred. Productivity of labor was still low and much of the production equipment obsolete, thus making it difficult to produce Hungarian goods of competitive quality for export in exchange for hard currency in order to obtain needed raw materials and consumer goods.

The revolt reduced the total output for 1956 and necessitated a downward revision of the industrial production goal for 1957 to a point 6.6 percent below that of 1955. This goal was sufficiently modest so that it was overfulfilled. The Hungarian economy in the first half of 1957 was producing at about the same average level as that reached in 1953. By the fourth quarter of 1957, however, industrial production, according to official figures, was 17 percent above the average for 1955, bringing the average output for the year slightly above the 1955 level. [] Thus industrial production, as a whole, had returned to or even surpassed the level of production existing in 1956 before the revolt. Recovery in light industry and chemicals was rapid, but production in the extractive and machine building industries did not reach pre-revolt levels by the year's end. Recovery was aided by a

STAT

STAT

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

good agricultural crop in 1957. The regime was beset by a host of immediate problems, which were aggravated by the revolt of October 1956, and was confronted by major problems which were all present and serious even before the uprising. These problems -- reduced industrial growth, low productivity of labor, backward technology, unsatisfactory consumption levels, foreign trade deficits, and shortages of raw materials -- stem directly from the economic policies which the regime pursued under the direction of the USSR from 1949 to mid-1953 and from a failure to correct many of its planning and performance errors in the period after mid-1953, even though the errors had been partially recognized.

II. History of Economic Policy and Its Results (1950-57).

During the period of the First Five Year Plan (1950-54) the Communist Party of Hungary directed an all-out effort to attain industrial growth by devoting approximately one-fourth of the national income to capital investment. After the original plan had been tried out for 1 year, the policymakers of the Communist Party decided that Hungarian goals for production and investment had been set too low and could be raised to a much higher level. A revised plan was initiated in 1951 which raised the 5-year investment goal by two-thirds and more than doubled the goals for industrial production -- that of heavy industry, in particular, was raised from 104 percent to 280 percent of the 1949 output. Between 1950 and 1953, while the national income of Hungary rose by nearly 30 percent, "accumulation" (net investment plus the increase in stocks), under state control, increased by 50 percent. This heavy investment created an expansion of machine industry and other manufacturing which far exceeded the materials and energy base of the economy. By early 1953, industrial production difficulties and the stagnation of agriculture had made it evident, even to the Soviet Bloc leadership, that a readjustment of goals and reallocation of resources were needed.

During the period when Hungarian planners were pushing rapid industrialization -- 1950-53 -- the index of per capita consumption did not show any significant growth and stood about the same in 1953 as in 1950. ^{2/} The percentage of national income allocated to consumption (private and public) was reduced from 77 percent in 1949 to 68 percent in 1953 (see Table 1*), and the allocation to personal consumption dropped from 66 percent to 46 percent in the same period.

A second revision of the First Five Year Plan, referred to as the "new course," was given the Party endorsement in June of 1953. The over-all investment goal was reduced, and various large projects were postponed to permit a greater allocation of total resources to

* Table 1 follows on p. 5.

FOR OFFICIAL USE ONLY

Table 1
 Percentage Distribution of the Hungarian National Income a/
 1949-55

	Percent of Total National Income								
	Based on 1949 Prices							Based on 1954 Prices	
	1949	1950	1951	1952	1953	1954	1955 b/	1954	1955
Consumption									
Personal	66.0	58.1	51.8	50.7	46.2	57.9	56.9	70.1	68.9
Public c/	11.3	13.0	13.1	20.6	21.8	17.6	13.9	12.0	9.5
Total	<u>77.3</u>	<u>71.1</u>	<u>64.9</u>	<u>71.3</u>	<u>68.0</u>	<u>75.4</u>	<u>70.8</u>	<u>82.1</u>	<u>78.4</u>
Accumulation									
Fixed capital fund	12.8	12.8	16.8	20.5	19.8	16.8	16.5	11.1	10.9
Working capital fund	8.2	14.0	17.2	7.8	11.7	8.1	10.4	6.7	8.6
Total	<u>21.0</u>	<u>26.8</u>	<u>34.0</u>	<u>28.4</u>	<u>31.5</u>	<u>24.9</u>	<u>26.9</u>	<u>17.8</u>	<u>19.5</u>
Net foreign payments d/	1.7	2.1	1.1	0.3	0.5	-0.3	2.3	Negligible	2.0
Total national income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

a. Percentages calculated from official figures on national income consumption in millions of forints at fixed prices. 3/ Totals are derived from unrounded data and may not agree with the sum of their rounded components.

b. Percentage distribution for 1955 in 1949 prices has been derived from the distributions given in 1954 prices.

c. Including consumption by the armed forces and by the social, health, educational, cultural, and administrative functions of the government.

d. Including balance of commodity trade, transfers, and uncompensated exports.

FOR OFFICIAL USE ONLY

consumption. The percentage of national income allocated to total consumption rose from 68 in 1953 to 75 in 1954. Likewise, a higher percentage of the investment resources was allocated to public welfare and to the development of industrial raw materials and electric energy, to projects that would assist agriculture, and to community projects and housing. The reallocation of resources was not accomplished without considerable friction, however, and the immediate result appeared to be a setback in the output of heavy industry without achieving a compensating increase in agricultural production. Total investment was reduced in 1954, but only a moderate increase was attained in housing and consumer goods on the market, and the balance of foreign trade was badly impaired by the necessity of importing more food and materials.

By 1955 the more liberal economic policy of the "new course" yielded to a partial return of such Stalinist policies as strict labor discipline, rigid enforcement of agricultural compulsory deliveries, and renewed pressure on private farmers to join the agricultural producer cooperatives. Nevertheless, the increased attention to agricultural assistance and techniques, the development of raw materials sources, and provision of an increased supply of consumer goods for the market together with lower prices, continued throughout 1955. The Second Five Year Plan, which was to start in 1956, called for a higher rate of investment than that of the previous 2 years, but somewhat lower than the peak year 1953, and allowed for a somewhat higher living standard than in earlier years. Official policy sought to avoid a pace of industrialization that would outrun the supply of materials and energy.

Under the more moderate pace of industrial growth in 1955 and 1956, investment was devoted principally to modernization and extension of existing industrial facilities and to the development of state and cooperative forms of agriculture. The availability of farm machinery, chemical fertilizers, and insecticides was much increased; livestock improvement and fodder crops received special attention; and a long irrigation canal was built in the Tisza River region. Hungary was showing some signs of improving its industrial and agricultural situation and of bettering its foreign trade position when the revolt of October 1956 gave a further setback to the economy.

This uprising, with its political threat to the Communist regime, brought a second and more radical shift of emphasis toward increased consumer income and a greater availability of consumer goods, the reduction of capital investment, the incurring of considerable foreign debt, and a considerable modification of organizational structure and immediate goals. Hungary's economic problems, recently increased by the uprising, require the practice of national frugality -- practices which in many respects conflict with the new emphasis on consumer welfare and the incentives offered for increased productivity. Increased

FOR OFFICIAL USE ONLY

taxes and heavy exports are required in order to reestablish Hungary's budgetary and external credit position. Such a belt-tightening policy is in conflict with that of the more liberal consumer income policy adopted to induce better production. Soviet assistance permitted Hungary to provide both raw materials for industry and more plentiful consumer goods in 1957, but long-term solutions of its economic problems will be more difficult to effect.

A. Allocation of Resources Within Industry.

Hungary has pursued a developmental policy that has been uneconomic in the light of its endowment of resources. The emphasis placed on heavy industry during the First Five Year Plan period was designed to push the machine building industry, which would find its principal market in the USSR. This branch of the economy was given the largest percentage of industrial investment in the original plan. The revised plan also provided for tremendous increases in the investment allocation for the metallurgical industry. Expansion of the iron and steel industry, in particular, was embodied in the construction of the large integrated plant at Dunapentele (formerly called Sztalinvaros) with a planned annual capacity of 1 million tons of steel. This combine was to include all stages of the industry from coking ovens and ore dressing through steel rolling mills. Electric power and its raw material, coal, became increasingly important to the country as industrial development proceeded and were given higher priority after mid-1953, in preparation for the Second Five Year Plan (1955-59). In this second 5-year period the plan was to build the chemicals industry in much the same way as ferrous metallurgy had been expanded before, with the objective of furnishing raw materials for synthetic fiber, plastics, dyes, chemical fertilizers, and explosives.

All of this development was based on a very slender resources base, for Hungary possesses only limited reserves of low-grade iron ore and an inferior grade of coal, which is used for industrial purposes other than metallurgical coke and is almost the sole source of energy for the electric power industry. The coal mined is of deteriorating quality, and the reserves are not extensive.

Not only has Hungary placed nearly all of its investment capital in heavy industry but also the planners have insisted on integrated production, particularly in the metallurgical industry, starting with imported materials in the raw state instead of emphasizing fabrication of imported semifinished materials. Thus Hungary has incurred heavy transport costs on imported ores and fuels and high capital costs for investment in primary processing although capital is scarce and labor plentiful. The cost of producing pig iron in Hungary, principally with the use of imported ore and coke, has been demonstrated by Hungarian

FOR OFFICIAL USE ONLY

economists to be much greater than the cost of purchasing the pig iron in the USSR. ^{4/} The continued availability of pig iron from this source in sufficient quantity, however, might be open to some question. It is probable that rolled steel products might be the most economical stage for Hungary to begin its machine industry. Nevertheless, the investment in iron and steel plant is now so great that it can hardly be abandoned without great loss, so that the planners still hope to lower production costs by building further integrated facilities such as steel rolling mills. Hungarian planners claim that, although 70 percent of the investment has already been made, only one-third of the capacity of the steel combine at Dunapentele is being used, and the remaining 30 percent of the total investment is needed to convert the project to a profitable enterprise.

This costly and unprofitable industrial development has been partly at the expense of agriculture, which was forced to provide much of the state funds for investment, in the form of low returns and heavy taxes but was systematically neglected in the allocation of investment funds. The meager investment funds which the state afforded to agriculture benefited only about one-third of the cultivated land, depriving the privately owned land of needed capital. Simultaneously, socialization of land holding and obligatory deliveries to the state of agricultural products at low prices, reduced the morale and incentives of the peasants.

The relative advantage of Hungary lies in its good agricultural land and its plentiful labor supply. It is now recognized that concentration on intensive agriculture and the food-processing industry could be advantageous in that it would furnish the type of export goods that Western nations would buy and offer the means of procuring hard-currency exchange with which to purchase raw and semifinished materials outside the Soviet Bloc countries. Hungarian plans for the future also include development of labor-intensive industries and specialized products with mass production methods which will reduce costs of production. Although Hungarian official statements indicate belated recognition of how to improve the allocation of resources, the political slant of Communist planning prevents an all-out effort to increase agricultural production and improve the technology and materials supply of Hungary's specialized industries.

B. Inefficiency of Investment.

One of the principal reasons for the low production and poor foreign trade position of Hungary, even after the First Five Year Plan had been completed, is the gross inefficiency with which investment resources have been expended. Too great a proportion of investment has been spent on plant construction while machinery in many existing

FOR OFFICIAL USE ONLY

plants has been allowed to become obsolescent. Moreover, the backlog of uncompleted industrial investment, instead of dropping, has increased and reached a record total -- almost five times that of the year 1950. This means that many investments already started must be dropped. There has been great pressure in various ministries to start new projects instead of concentrating on those already begun, and it has been characteristic of the investment policy that unfinished projects were accumulated, some awaiting import of machinery and others with unfinished construction. The use of poor material and untested machinery also has proved wasteful. One glaring example of such poor investment is the Borsod Chemical Combine, opened in December 1955, which was so badly planned and executed that it remained inoperative long after October 1956, when one of the Hungarian-made compressors exploded.

Use of plant capacity has likewise been inefficient, for much capacity has been left unused for want of fuel or materials shipments or for lack of parts to be furnished by other factories. Uncoordinated production, an uneven distribution of work caused by a rush to fulfill quarterly plans, neglect of quality in order to increase quantity, and output ill suited to the market because of uncoordinated plans have characterized industrial operation. A high percentage of rejects testifies to the poor quality of the products. Because of poor quality and outmoded design, Hungarian products cannot compete on the Western markets and usually must be sold below the going world market price. The USSR has customarily inspected all goods at source and accepts only prime quality products for its imports.

For the future, the administration of Hungary hopes to correct some of the difficulties by reorganizing industry to emphasize a number of specialties that would be mass-produced for greater economy. Although a start has been made toward such changes in the structure of industry, the greater emphasis, for the present, is on the completion of the large projects begun at an earlier period and on the production of basic materials and power.

C. Changeability of Economic Policy.

Hungarian economic policy, like that of the other Satellites, has followed the general line laid down by the USSR for countries of the Bloc. Hungary implemented these policies with extraordinary vigor in 1951 and again in 1953. During the past few years the "new course" policy has been subject to the conflicting Party counsels of those who wished to pursue a hard line or a soft line toward the alternate uses of income for investment on the one hand or toward improvement of standard of living on the other. In 1953-54, capital investment received a much-reduced allotment in the economic plan, and it became necessary to halt some projects such as construction of the Dunapentele iron and

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

steel combine. In 1955-56, more investment capital was allocated for completing certain units of this project and a large chemical works was planned on the Tisza River, but by 1957 events made it necessary to set aside plans for both projects temporarily. This backing and filling on investment policy resulted in an obvious waste of materials and labor resources.

D. Results of Economic Policy.

1. Growth of National Income.

The official Hungarian index of national income purports to measure changes in the value of net material product. Income from services not directly connected with material production is not included in the Communist concept of national income.

The very substantial gains of the first 2 years of the First Five Year Plan were realized before the scarcity of basic materials and power had become acute. These gains may be somewhat exaggerated by the index, however, because of the possible underestimation of the handicraft product in 1949. The output of individuals in that period before they were absorbed into state or cooperative industry could hardly have been completely reported, as it was after they were included in the socialized sector. Actual declines were registered by the index of national income in 1952, 1954, and 1956 (see Tables 2 and 3.*) The decline in the index for 1952 was largely accounted for by the crop failure of that year. The highest point of national income up to that time was reached in 1953 in spite of a weakening of productive forces in the economy, partly on account of heavy investment in construction and improved crop yields, which was very apparent by that year. The seriousness of the situation was given official recognition in the change of economic policy in June 1953. In 1954, no sector of the economy made a significant growth. Heavy industrial output declined, and agricultural yields were poor in some respects. The interim year 1955 was a better one than 1954. Although there was some degree of return to former policies favoring heavy industry in 1955, the more liberal consumer policies and more enlightened agricultural policies of the "new course" period were retained.

The gains of the year 1955 and the first 9 months of 1956 were checked by the October revolt. Even if the revolt had not occurred, however, continuation of the economic progress of these years was rendered uncertain by an increasing tendency of the regime to return to the same economic policies that had brought a stalemate in production, such as increasing investment in heavy industry and using economic

* Tables 2 and 3 follow on pp. 11 and 14, respectively.

FOR OFFICIAL USE ONLY

Table 2
 Hungarian National Income ^{a/}*
 by Sector of Origin ^{b/}
 1949-55

Sector of Origin	1949 Prices							1954 Prices		
	1949	1950	1951	1952	1953	1954	1955 ^{c/}	1954	1955	
	Million Forints									
Industry	18,801	23,521	27,672	32,729	36,410	35,378	39,400	46,696	52,074	
Building industry	2,267	3,136	4,272	4,613	4,916	3,836	4,320	4,929	5,543	
Agriculture	9,884	11,050	13,149	8,207	11,391	10,846	12,500	24,290	28,059	
Transportation	1,504	1,967	2,542	3,263	4,004	3,895	3,830	3,441	3,383	
Trade ^{d/}	4,876	5,524	5,340	3,215	2,117	2,462	1,500	5,926	3,874	
Internal trade	5,400	6,263	6,520	5,481	5,476	6,065	5,620	13,379	12,396	
Foreign trade ^{d/}	-524	-740	-1,180	-2,266	-3,359	-3,602	-4,120	-7,454	-8,522	
Other material production	373	290	245	190	229	242	212	242	212	
Total ^{e/}	<u>37,704</u>	<u>45,487</u>	<u>53,220</u>	<u>52,217</u>	<u>59,066</u>	<u>56,659</u>	<u>61,800</u>	<u>85,524</u>	<u>93,145</u>	

* Footnotes for Table 2 follow on p. 13.

FOR OFFICIAL USE ONLY

Table 2
Hungarian National Income a/
by Sector of Origin b/
1949-55
(Continued)

Sector of Origin	1949 Prices							1954 Prices	
	1949	1950	1951	1952	1953	1954	1955 c/	1954	1955
	Indexes of Growth (1949 = 100) d/								
Industry	100	125	147	174	194	188	210		
Building industry	100	138	188	204	217	169	190		
Agriculture	100	112	133	83	115	110	127		
Transportation	100	131	169	217	266	259	254		
Total income	100	121	141	138	157	150	164		
	Percentage Distribution								
Industry	49.9	51.7	52.0	62.7	61.6	62.4	63.8	54.6	55.9
Building industry	6.0	6.9	8.0	8.8	8.3	6.8	7.0	5.8	6.0
Agriculture	26.2	24.3	24.7	15.7	19.3	19.1	20.3	28.4	30.1
Transportation	4.0	4.3	4.8	6.2	6.8	6.9	6.2	4.0	3.6
Trade d/	12.9	12.1	10.0	6.2	3.6	4.3	2.4	6.9	4.2
Other material production	1.0	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.2
Total e/	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

FOR OFFICIAL USE ONLY

Table 2

Hungarian National Income a/
by Sector of Origin b/
1949-55
(Continued)

- a. National income is computed according to the Communist concept. Unlike the Western concept of national income, the Communist definition excludes personal services not directly connected with the production of goods, the most important of which are the services of government administrative employees and defense personnel, professional service, domestic service, and passenger transportation, but includes indirect taxes, chief of which is the turnover tax.
- b. Percentages calculated from official figures on production of national income by sector of origin in millions of forints at fixed prices. 5/
- c. Values for 1955 in 1949 prices have been derived from 1955 values in 1954 prices and have been rounded to three significant digits.
- d. Values for total trade are net and represent the difference each year between the positive value of internal trade and the negative value of foreign trade. Because this difference has little significance as an index of trade, no growth index is shown for the trade sector of the economy. The negative value for foreign trade is the result of the adjustment between the foreign trade prices of imports and exports (on commercial account -- that is, excluding trade financed by credit, transfers, and other noncommercial transactions) and their domestic prices. Hungarian domestic prices consistently overvalue export goods, which consist largely of manufactures, and undervalue import goods, largely raw materials, in comparison with the world market prices.
- e. Totals are derived from unrounded data and may not agree with the sum of the rounded components.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

pressures to force the peasants into the collectives. The national income in 1956 dropped about 11 percent, or 10 billion forints, below that of 1955, and its recovery in 1957 was about 10 percent above that of 1956 (see Table 3) and approximately 6 percent below that planned for 1958.

Table 3

Hungarian National Income
1954-58

<u>Year</u>	<u>Billion Forints</u> <u>(1954 Constant Prices)</u>	<u>Percentage Change</u> <u>from Previous Year</u>
1954	85.5 <u>a/</u>	
1955	93.1 <u>a/</u>	8.9
1956	83.1 <u>b/</u>	-10.7
1957 (Estimated)	91.4 <u>c/</u>	10.0
1958 (Plan)	95.3 <u>d/</u>	4.3

a. 6/

b. Based on the fulfillment report, which states that national income in 1956 was 10 billion forints, or about 11 percent, lower than in 1955. 7/

c. An increase of 10 percent above 1956 was estimated by the UN, Department of Economic and Social Affairs. 8/

d. Arpad Kiss, President of the National Planning Office, speaking about the economic plan for 1958, said that national income, on the basis of a 7.3-percent increase of industrial and a 4.6-percent increase of agricultural production, will be 4.3 percent greater than in 1957. 9/ This total is computed from the estimated national income for 1957.

2. Foreign Trade and the Availability of Raw Materials.

Hungary is dependent on foreign trade for most of its raw materials for both heavy and light industries. Even the more prosperous small countries, such as Austria, Denmark, Holland, Switzerland, and Finland, can attain economic production only by industrial specialization and foreign trade. This is even more true of Hungary, which ranks as one of the poorer countries in natural resources. Hungary's economic policy, however, has been developed along lines which require a large use of minerals, fuels, and electric energy -- fields in which its natural endowment is poor.

FOR OFFICIAL USE ONLY

At the same time, all other Satellite countries of the Soviet Bloc pursued the same policy. They were in competition with each other both for scarce materials and for markets, especially those of the Free World. In spite of the efforts of the Council for Mutual Economic Assistance (CEMA), they failed collectively to develop enough raw materials to support their industries. Hungary, with somewhat fewer natural resources than some of the other European Satellites, has been unable to command an adequate supply of imported raw materials from the Soviet Bloc, even though 65 to 75 percent of its exports in 1949-55 were to Bloc countries. Moreover, it has run a chronic deficit in trade with the Free World. It has been forced to sell its goods below world prices at times, juggle accounts, run up a heavy debt, and cut itself off from needed imports to save its credit standing.

Hungary's political orientation toward the Soviet Bloc has determined its choices in the development of domestic industry, and the present structure of foreign trade favors this orientation, as evidenced by the fact that a major part of the products of the machine industry are exported and that 90 percent of the machine export goes to the socialist countries. Because its exports are largely to the USSR and other Satellite countries, Hungary must depend on these sources to a large extent for its raw materials. These sources have proved to be irregular and unsatisfactory in various ways -- for example, a poor quality of iron ore from Krivoy Rog and an always insufficient supply of nonferrous metals, ferroalloys, and certain other essential materials.

Under normal conditions, Hungary's principal raw material imports are iron ore, metallurgical coke, nonferrous metals, pyrites, lumber, rubber, cotton fiber, and leather. Coal and petroleum have bulked larger in the imports of 1957 because of the breakdown of domestic production. Wheat and fodder grains have also been imported to renew depleted stocks. Although most of these scarce materials have been supplied by the USSR and other countries of the Bloc, it is more advantageous and in some cases necessary to import some commodities from other sources. Traditionally Hungary exported its food products to many countries of western Europe. The principal export line acceptable to the West is food products -- including livestock, meat products, fruits, vegetables, wine, and seeds. Lacking a surplus of food products in 1953 and several years thereafter, Hungary has tried to substitute textiles, electrical goods, and machinery. Fully installed manufacturing plants and construction projects also have been offered to underdeveloped countries. Such contracts are made chiefly with countries of Asia and the Near East and have frequently been made below world prices, thus indicating that Hungary, a high-cost producer, is losing on such sales. A few well-established products are sold to South American countries, but for the most part machinery is salable only within the Soviet Bloc.

FOR OFFICIAL USE ONLY

In 1953 and frequently thereafter, Hungary has been forced to depend on the West for imports of bread grains as well as certain essential materials like cotton, leather, and wood products and has had to arrange for short-term credits to obtain these items. In 1956 the Hungarian export trade was interrupted by the revolt, and payment of these trade debts was temporarily impossible. Before the revolt these Western credits were reported to total \$250 million (at the official exchange rate).

III. Impact of the 1956 Revolt.

Hungary has officially estimated the damage from all forms of loss incurred on account of the October 1956 revolt to be 22 billion forints. This sum would equal 42 percent of the national budget (estimated to be 51.9 billion forints), or about one-fourth of the estimated national income for 1 year. This estimate included the value by which production was diminished and by which state stockpiles were diminished as well as direct damage to buildings, transportation, industrial plant, and other areas. Direct damage to industrial plants was minor, except for considerable damage to motive-power rolling stock and lines of the state railroad (MAV). Most of the damage was suffered by housing and other buildings in Budapest and some other cities at the scenes of street fighting.

Assuming that the rate of investment planned for 1956 could have been maintained if the revolt had not occurred, the loss of domestic investment in 1956-58 is estimated to be about 7 billion forints. In addition, in order to meet the emergency created by the revolt, Hungary had to borrow from the other Bloc countries.

The present industrial plant is expected to produce in 1958 at the level planned for 1956. There appears to have been no immediate loss to the population in the form of scarcities of food and consumer items, but public works and housing may have suffered, to some extent, from a lower rate of construction between 1958 and 1960 than might otherwise have been maintained.

Hungary was threatened with inflation after the revolt because of its increased consumer purchasing power coupled with decreased production. Its first task was to restore industrial production by obtaining the necessary electric power, fuels, and materials and by inducing a recalcitrant working force to produce. It was necessary to obtain credits for goods to be purchased in the Bloc and hard currency for immediate settlement of Western accounts. Imports on credit from the USSR and other countries of the Soviet Bloc served to get production started quite rapidly in 1957. During 1957, Hungary lived on borrowed capital, importing much more than it exported, attempting to appease its people

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

by increasing their scale of living, and at the same time operating on a lower national income than had been planned for the previous year.

The state budget for 1957 was balanced only with the assistance of 4.3 billion forints (domestic value) in foreign loans from other countries of the Bloc. The decreased value of the national income expected in 1957, on account of the revolt, made it necessary to increase the planned percentage for consumption from the 78 percent allocated in 1955 and 82 percent in 1956 to 95 percent for that purpose in 1957. This left only 5 percent of national income, in addition to the proceeds of foreign loans, to be devoted to capital investment, repair of damages, and renewal of goods stocks in the possession of the state.

Thus the immediate difficulties of the uprising -- reduced productive capability and increased political necessity for higher consumption levels -- have been added to the preexisting problems arising from past developmental policies. These problems will be difficult to solve even if the Hungarian leaders bestow a less single-minded concentration on heavy industry and give greater consideration to the encouragement of agriculture, to the improvement of design and quality in industrial products, and to modern technology. Although their statements and plans indicate a recognition of past mistakes, there is no clear sign that once recovery has reached the pre-revolt state they will continue to emphasize these other aspects of the economy. Many old-line Communists have returned to influential positions. It is quite possible that they will favor a return to the policy of priority development of heavy industry. The Three Year Plan (1958-60) announced in June 1958 stated that further development of industry, and above all, heavy industry, is a primary aim of the plan.

IV. Recent Developments in the Hungarian Economy (1957-58).

A. Policy Shift to Increased Consumption and Its Implementation.

1. Increases in the People's Income and Availability of Consumer Goods.

After the uprising the Kadar government made a decision to permit the increase of consumption over the pre-revolt level. This policy affected farmers and wage earners and was manifest in the curtailment of state investment, the increase of state procurement prices for farm produce, and the establishment of higher wage rates. Wage payments, which were to increase 10 percent according to government decree, got out of hand immediately following the revolt, and wage fund allocations to industries were exceeded. In the first quarter of 1957 the earnings of workers in state-owned industries were 22 percent higher than the monthly average for 1955, although worker productivity was far

FOR OFFICIAL USE ONLY

below the pre-revolt level. The total money income of the population advanced until August, as did the average monthly earnings of industrial workers, except in June. By May the regime had put some curb on the rise of wages, and incentive wages were made mandatory on all enterprises after the end of August. Total money income for January through October 1957 was reported to be 16 percent higher than in the corresponding period of 1956, and the average earnings of industrial workers were 22 percent higher. In 1958 the state further tied work compensation to production by inaugurating the practice of profit sharing in industry, in the building industry, and in state agricultural enterprises. The first-quarter report for 1958 indicated that the more profitable enterprises averaged an additional 3 weeks' pay for their workers.

The most significant change in policy made since the revolt was the endorsement by the Kadar government of the revolutionary decree abolishing compulsory surrender of farm produce. Hungary is the only Satellite country that has completely abolished the system of compulsory delivery of agricultural crops, although Poland and Rumania have made significant reductions in the number of crops under the quota system in the last 2 years. The two problems posed by the change in the procurements system were (a) that of setting up machinery for obtaining a sufficient supply of basic foodstuffs by other than a compulsory surrender system and (b) that of compensating for the loss in state revenue entailed in the higher procurement prices. Such a change amounted, in effect, to relinquishing a tax on farm produce which during the period from 1950 to 1956 had helped to support state industrialization. Hungarian officials have boasted that the change was effected without reduction of state food stocks and also that the food supply in the cities had not been so even for years. Food stocks were adequate because of lower exports of food and significant imports of wheat and fats. Agricultural production in 1957 was higher than in 1956, export of wheat was negligible, and imports of bread grain were slightly higher than in 1955.

The peasants' real income in 1957 was reported to be 8 to 10 percent higher than in 1956. Because the higher farm prices added considerably to the purchasing power of the farm population, it was necessary to provide consumer goods and farm implements and supplies or other opportunities for expenditure to absorb the excess purchasing power of the peasants. It is claimed that considerable investment in farm livestock, implements, and buildings took place in 1957, in contrast with former years when almost no private, and little cooperative, capital was invested. Prices of farm implements and certain consumer durables were raised during the year as an anti-inflation measure.

Free market prices of food were lower in 1957, but retail food prices as a whole were above the previous year's average until

FOR OFFICIAL USE ONLY

September. The state procurement prices were fixed at the price level of the free market before the obligatory delivery system was abolished, largely because contracts with the producers had been made at this level. The problem of obtaining an even supply of food products for urban areas was solved largely through the use of market incentives to farmers. State food supplies were obtained from these sources: (a) free purchase, (b) deliveries and sales contracts with cooperative farms and independent peasants, (c) production of state farms, (d) payment in kind for state services, (e) imports, and (f) open stocks.

In support of the consumption policy in 1957, the regime provided a more plentiful supply of consumer goods and food products. This was accomplished by keeping more of the products of Hungarian industry for home use and by importing more consumer goods in addition to a large quantity of industrial materials. It was possible to follow this policy, however, only by incurring an unfavorable balance of trade to the amount of 2 billion devisa forints* during 1957. This unfavorable balance was covered principally by long-term foreign loans from the USSR and other countries of the Soviet Bloc and, to a small extent, by small trade credits from Western countries. In 1958 the foreign trade deficit is expected to be eliminated by a combination of reduced imports and increased exports.

Although no increase in the standard of living is planned for 1958, the regime expects to maintain the present level for both industrial workers and peasants. The announced policy for 1958 is to raise total consumption 5 percent above 1957, but, with an increasing population, this rise amounts to only 2 to 3 percent per capita. 10/ No further assistance for purposes of consumption is expected from foreign credits.

2. Recovery of Production in 1957.

Recovery of production in 1957, although fairly rapid, was somewhat uneven, with heavy industry lagging behind the rest until the last quarter of the year. For the first three quarters of 1957, gross production of state industry as a whole was 3 percent below the level of the same period in 1956, heavy industry was 9 percent below 1956, and light industry and food industry had surpassed the same period of the year before by 7 percent and 2 percent, respectively (see Table 4**).

* The devisa, or foreign exchange, forint, is an accounting unit used in Hungary for recording foreign trade transactions. Values in devisa forints are obtained by converting ruble or dollar values to forints at an arbitrary rate of exchange set by the Hungarian government. Values of imports and exports obtained in this way differ considerably from values expressed in terms of actual domestic prices (see Table 12, p. 37, below).

** Table 4 follows on p. 20.

FOR OFFICIAL USE ONLY

Table 4

Comparison of Selected Indexes of Gross Production
in the Hungarian Economy
Before and After the October 1956 Revolt a/

	January-September 1957 as Percent of <u>January-September 1956</u>	1957 as Percent of <u>1956</u>	1957 as Percent of <u>1955</u>
Gross production			
Total state industry	97	111	102
Total heavy industry	91	109	101
Total light industry	107	126	102
Food industry	102	106	101
Number of industrial workers	101	100	103
Average monthly earnings of industrial workers	122	120	128
Gross production per industrial worker	96	111	99

a. 11/

Output for the fourth quarter of 1957 was high, and the year's output of state industry exceeded that of 1956 by 11 percent and that of 1955 by 2 percent. The most critical shortages in the early months of 1957 occurred in coal and electric power, and production in most lines was curtailed until coal output returned to normal, about May, after which it recovered sufficiently to equal the 1955 output for the year. Production of oil, which had been affected by technical difficulties before the revolt, did not recover even to half of the 1955 output. (see Table 5*).

Agricultural crops were unusually good in 1957. Foods were reported to be more available than previously.

3. Retail Trade.

Retail sales in current prices increased by 38 percent, and retail stocks by 69 percent, between January and October. For the first

* Table 5 follows on p. 21.

FOR OFFICIAL USE ONLY

Table 5

Hungarian Output of Selected Industrial Materials
Before and After the October 1956 Revolt

<u>Industrial Material</u>	January-September 1957 as Percent of January-September 1956	Volume Produced (Thousand Metric Tons ^{a/})			Indexes of Production (1955 = 100)		
		<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Coal <u>b/</u>	85	22,316	20,590	21,197	100	92	95
Electric power <u>b/</u>	88	5,428	5,201	5,449	100	96	100
Steel	76	1,629	1,425	1,375	100	87	84
Rolled steel products	134	883	792	893	100	90	101
Cement	87	1,175	995	989	100	85	84
Crude oil	47	1,601	1,200	672	100	75	42

a. Except for electric power, which is given in million kilowatt-hours.

b. 12/

FOR OFFICIAL USE ONLY

three quarters of 1957, retail sales were 113 percent of the same period in 1956. During this same period, goods valued at 6,052 million forints more were added to retail and wholesale stocks than during a similar period in 1956. Including the increase in stocks and in sales, the state put into the consumer goods sector approximately 9,816 million forints more in goods than it did in 1956, not allowing for official and unofficial price increases, which somewhat inflated this figure. 13/

4. Housing.

The consumption area which has been most neglected is that of housing. The proportion of the total capital investment which was devoted to housing in 1957 was more than twice as high as in previous years -- 23.5 percent compared with 11.8 percent in 1956, 14/ and the total number of dwellings produced exceeded the number in any year since World War II (see Table 6*). It is believed that the net gain in dwelling units during 1956-57 was only about half of the reported gross gain of 74,500 because housing losses through deterioration and destruction probably were very high. Moreover, much of the claimed construction was not that of new dwellings but was actually restoration or conversion of older dwellings which had been part of the housing stock at the beginning of 1956. Repairs in the city of Budapest were extensive and doubtless accounted for a large part of the new housing. For Hungary as a whole, the decline in population after the revolt brought some quantitative improvement in housing, but this gain was largely offset by the continued decline in the quality of the available housing.

Any increase in the state investment funds for housing has been prevented by the necessity of curtailing the investment total, and the number of state-built and privately built units planned for the 3 years 1958-60 averages only about 37,000 a year, although the regime has admitted the need for more housing than the plan calls for. The chief reliance for this limited number is placed on private means. Homeowners were expected to build 63,000 of the 100,000 units -- now raised to 110,000 -- to be built in the 3-year period. Loans have been offered to individual home builders of up to 75 percent of the cost of the house to be constructed or for the completion of an unfinished one on a site owned by the applicant. 15/

5. Assistance from the Soviet Bloc.

The increased incomes during 1957, coupled with low production, would have laid the basis for a severe inflation in Hungary except for the large flow of imports from other countries of the Bloc on long-term credits. These imports included some consumer goods not usually

* Table 6 follows on p. 23.

FOR OFFICIAL USE ONLY

Table 6

New and Reconstructed Dwellings Built in Hungary
 1950-57
 and Origin of Financing
 1955, 1957, and 1958-60 Plan

<u>Year</u>	<u>Dwellings Built</u>		<u>Units</u>
	<u>Total a/</u>	<u>New Dwellings a/</u>	
1950	24,669		N.A.
1951	17,742		13,494
1952	16,683		13,747
1953	16,793		13,272
1954	27,211		23,010
1955	31,526		26,113
1956	25,500 b/		N.A.
1957	49,000 b/		N.A.

<u>Origin of Financing</u>	<u>Year</u>		
	<u>1955 a/</u>	<u>1957 b/</u>	<u>1958-60 Plan c/</u>
State-built	13,604	26,000	37,000
Built with state aid	2,849	23,000	63,000
Privately financed	15,073		
Total	31,526	49,000	100,000

a. 16/

b. 17/

c. Breakdown prorated according to earlier plan for 100,000 instead of the later plan for 110,000.

imported, but more important to Hungary were the supplies of industrial raw materials obtained without compensating exports. This permitted the retention for home use of consumer goods usually exported as well as permitting a concentration of resources on the recovery of the light and food industries.

In 1958 the situation is beginning to change. The large deficit in foreign trade must be reduced as the foreign credits arranged

FOR OFFICIAL USE ONLY

for in 1957 are largely exhausted. The present level of personal consumption must be preserved as a continued inducement to the peasants and workers to produce. One of the factors facilitating the maintenance of this level, at least through the greater part of 1958, is the high volume of consumer goods accumulated during 1957. This stockpile, being unusually large, may be drawn down in 1958 to supply the population, thus permitting full resumption of consumer goods exports in 1958. By 1960 the further burden of repaying the long-term debts owed to members of the Soviet Bloc will demand a considerable increase in exports.

B. Foreign Trade Since the Revolt.

1. Changed Pattern.

Hungarian trade with the Soviet Bloc showed a substantial excess of exports over imports during the 3 years preceding the revolt, but there was a persistent deficit in trade with non-Bloc countries, as a group, until the first 9 months of 1956. The generally favorable situation in 1956 was interrupted by the revolt, when the sudden spurt of imports and decline of exports produced a large deficit in total and Bloc trade, particularly in the early part of 1957. Non-Bloc trade was less affected. The deficit for the entire year of 1957 was about 2 billion devisa forints and amounted to one-fourth of the total imports.

In comparison with 1955, the last normal year, imports for 1957 not only increased by 24 percent in total value but also were more concentrated in source. Imports purchased from other European Satellites, as a group, rose in value by about 40 percent above those of 1956, but those from the USSR more than doubled. Although exports to non-Bloc countries were down very little from the 2 previous years, the value of imports from non-Bloc trading partners was lower than in 1955. Total exports were below the level of 1955 by 18 percent. Exports to other European Satellites were down 20 percent from the level of 1955, and those to the USSR were 30 percent under the total for 1955. This change in pattern was indicative of the immediate employment of credits from the USSR and the other European Satellites to obtain the necessary imports.

Hungary apparently did not suffer from the decreased imports from non-Bloc countries in 1957, because materials from the Bloc more than made up the difference. A trade agreement has been concluded with the USSR for 1958-60 under which the USSR will supply Hungary with such materials as iron ore, coke, crude oil, rolled steel, ferroalloys, non-ferrous metals, cottons, sawmill products, motor vehicles, ball-bearings, and oil drilling and roadmaking equipment in return for the customary Hungarian exports. A Soviet investment loan of 300 million rubles made in December 1957 and later raised to 440 million (\$110 million at the official exchange rate) gave Hungary some support for its own rather meager investment fund for the 3-year period 1958-60.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Imports of coal, petroleum, and almost all other types of imported raw materials were higher in 1957 than in previous years, and the stockpiles of industrial raw materials were built up during the year, some of which exceeded the usual stocks before the revolt. In 1958, Hungarian officials stated that stocks of some kinds of coal had become too high for convenience and efficiency.

2. Balance of Trade.

The substantial excess of imports over exports in 1957 was financed mainly out of long-term loans from the Soviet Bloc which, exclusive of the December loan from the USSR, totaled 1.2 billion rubles (\$300 million at the official exchange rate). (See Table 9*). Total imports in 1957 were 43 percent higher than in 1956 and 24 percent higher than in 1955. Total exports were about the same as in 1956 but 18 percent lower than in 1955.

The plan for foreign trade in 1958 aims to eliminate the foreign trade deficit. In comparison with 1957, exports are to rise by 22 percent and imports fall by about 12.5 percent. This plan, if met in respect to both imports and exports, will eliminate the 2-billion-forint deficit and bring foreign trade into balance in 1958. Those areas where deficits occurred in 1957 are the most likely candidates for adjustment in 1958, but the effort to bring trade into balance may entail a change in the geographic pattern of trade.

In 1955 and 1956, there was a substantial increase in Hungary's trade with non-Bloc countries (see Table 7**), and in 1956, for the first time since the Communists took over the Hungarian government, trade with non-Bloc countries showed a slightly favorable balance (in foreign exchange forints). This was accomplished not only by further increasing exports to non-Bloc countries but also by cutting down imports from the high level reached in 1955. Such an effort to cut down imports from non-Bloc countries may deny Hungary needed materials that the Bloc cannot supply and will certainly make it more dependent on the Bloc. By 1957, both import and export trade with the non-Bloc countries had declined considerably from the 1955 level but still showed a small export surplus. The trade deficit was concentrated in the Soviet Bloc, where it was covered by long-term loans from each of the Bloc countries. Within the Bloc, imports exceeded exports for every country except China, but the really heavy deficit occurred in trade with the USSR. This supports the official statement that the USSR carried the major burden of supplying Hungary during the post-revolt period. (See Table 7 for trade by country in 1957.**)

* P. 29, below.

** Table 7 follows on p. 26.

FOR OFFICIAL USE ONLY

Table 7

Hungarian Trade with the Soviet Bloc and with Non-Bloc Countries a/
1955-57

Million Foreign Trade Forints

Country	1955			1956			1957		
	Imports	Exports b/	Surplus or Deficit	Imports	Exports b/	Surplus or Deficit	Imports	Exports b/	Surplus or Deficit
Bulgaria	120.0	102.6	-17.4	142.2	68.4	-73.8	123.0	70.4	-52.6
Czechoslovakia	660.8	928.1	+267.3	647.6	734.4	+86.8	927.5	880.3	-47.2
East Germany	580.8	762.4	+181.6	520.4	451.1	-69.3	801.1	578.3	-222.8
Poland	312.7	374.7	+62.0	275.1	266.2	-8.9	402.2	251.7	-150.5
Rumania	218.5	227.6	+9.1	151.3	142.4	-8.9	196.3	142.0	-54.3
Subtotal	<u>1,892.8</u>	<u>2,395.4</u>	+502.6	<u>1,736.6</u>	<u>1,662.5</u>	-74.1	<u>2,450.1</u>	<u>1,922.7</u>	-527.4
USSR	1,163.7	1,794.9	-631.2	1,261.2	1,417.9	+156.7	2,769.0	1,254.0	-1,515.0
Communist China	340.5	428.4	+87.9	334.5	364.7	+30.2	324.6	348.9	+24.3
Total Bloc	<u>3,397.0</u>	<u>4,618.7</u>	+1,221.7	<u>3,332.3</u>	<u>3,445.1</u>	+112.8	<u>5,543.7</u>	<u>3,525.6</u>	-2,018.1
Total Non-Bloc	<u>2,877.0</u>	<u>2,529.2</u>	-347.8	<u>2,140.3</u>	<u>2,363.9</u>	+223.6	<u>2,257.6</u>	<u>2,306.2</u>	+48.6
Grand total	<u><u>6,274.0</u></u>	<u><u>7,147.9</u></u>	+873.9	<u><u>5,472.6</u></u>	<u><u>5,809.0</u></u>	+336.4	<u><u>7,801.3</u></u>	<u><u>5,831.8</u></u>	-1,969.5

a. 18/

b. Including reexports.

FOR OFFICIAL USE ONLY

3. Source of Raw Materials and Change in the Commodity Composition of Trade.

The recent trade agreement with the USSR was reported by the Minister of Foreign Trade to cover a list of 60 basic materials to be imported and 60 to be exported. It was said to cover 100 percent of Hungary's imports of iron ore, ferroalloys, and oil and 90 percent of its imports of pig iron as well as 50 to 80 percent of its requirements for imported metallurgical coke, pit props, timber, cellulose, and non-ferrous metals. For consumer goods Hungary would rely less heavily on the USSR but would obtain from that source 15 percent of its import requirements for refrigerators, washing machines, polishers, vacuum cleaners, motorcycles, watches, and the like. More than 90 percent of the articles to be imported from the USSR are raw materials and semi-finished articles, and roughly 40 percent of Hungary's import requirements for industrial materials will be covered by imports from the USSR. As the general level of Hungarian imports is to be reduced from the 1957 level by 12.5 percent, the value will stand about 10 percent above the 1956 level. Imports from the USSR, however, reportedly will be 75 percent higher than in 1956. This would indicate that the USSR is taking over, at least temporarily, the supplying of Hungarian industry to a much greater extent than before the revolt. Exports in 1958 will equal the level of 1955.

The composition of Hungarian foreign trade changed considerably in 1957, as a result of the revolt. The export of production machinery increased in proportion to other components of the export total, and exports of foodstuffs and industrial consumption goods declined. On the other hand, imports of machinery declined relatively and foodstuffs and industrial consumer goods increased, as shown in the percentage distribution of Hungarian trade (see Table 8*). These changes appear to be impermanent, and the new pattern probably will be reversed in 1958.

4. Loans from the Soviet Bloc.

Even before the revolt the USSR had extended loans of 60 million rubles in goods credits and 40 million rubles in convertible exchange to meet a growing emergency in the Hungarian supply situation in 1956 in addition to a commodity loan of 25 million rubles to be drawn upon in 1957. After the restoration of the Communist government in November 1956, long-term loans were granted to Hungary by every member of the Sino-Soviet Bloc and Yugoslavia. Goods credits made in 1957 amounted to 805 million rubles with 300 million additional rubles of investment credits to start in 1958. This brought the grand total of

* Table 8 follows on p. 27.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Table 8

Percentage Distribution of Hungarian Trade, by Class of Product a/
 1955-57

Class of Product	Percent					
	Export			Import		
	1955	1956	1957	1955	1956	1957
Machines for the purpose of production	33.3	33.4	38.9	13.3	13.9	11.5
Fuels and materials	20.8	21.1	21.0	70.8	73.6	69.3
Live animals	3.3	5.9	4.7	0	0	0.1
Foodstuffs	24.7	22.5	20.8	12.6	8.1	11.6
Industrial consumption goods	17.9	17.1	14.6	3.3	4.4	7.5
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

a. 19/

goods and equipment credits, including those extended before the re-
 volt, to 1,190 million rubles (approximately \$300 million). (See
 Table 9.*) Loans of free currency from the USSR and Communist China,
 including the 40 million rubles extended in 1956, totaled 340 million
 rubles. Revenue from these foreign loans was carried in the 1957 Hun-
 garian state budget at 4.3 billion internal forints, about 8 percent
 of the entire budget.

Of the total loans to Hungary, the USSR supplied 935
 million rubles in goods and 240 million rubles in free currency.
 The USSR also canceled 340.8 million rubles of debt owed by Hungary,
 principally on account of the purchase in 1954 of Soviet interest
 in the joint companies; and in April 1957 the USSR made a reimburse-
 ment of 80 million to 90 million rubles to Hungary as a result of a
 joint reexamination of payments since 1950 for transportation and
 travel charges.

Repayment of the principal Soviet loan will start in
 1961 and run for 10 years, and the periods of repayment to other
 members of the Bloc start even earlier. Interest is fixed at 2 per-
 cent. Even if equilibrium of foreign trade should be attained

* Table 9 follows on p. 29.

FOR OFFICIAL USE ONLY

Table 9

Long-Term Loans to Hungary by Other Soviet Bloc Countries
1956 and 1957

Country	Date	Million Rubles			Total Loans (Million US \$) ^{a/}	Period of Repayment
		Total Loans	Goods and Equipment	Free Currency		
USSR	October 1956	100 ^{b/}	60	40	25	1960-65
	1956	25 ^{b/}	25	0	6	1961-70
	March 1957	750 ^{b/}	550	200	187	1961-70
	December 1957	300 ^{c/}	300	0	75	1959-68
Subtotal		<u>1,175</u>	<u>935</u>	<u>240</u>	<u>293</u>	
Communist China ^{b/}		100	0	100	25	1960-69
Czechoslovakia ^{b/}		100	100	0	25	1960-67
East Germany ^{b/}		60	60	0	15	1957-65
Poland ^{b/}		40	40	0	10	1959-62
Rumania ^{b/}		40	40	0	10	N.A.
Bulgaria ^{b/}		7	7	0	2	N.A.
Yugoslavia ^{b/}		8	8	0	2	N.A.
Total		<u>1,530</u>	<u>1,190</u>	<u>340</u>	<u>382</u>	

a. Converted at the official rate of 4 rubles to US \$1.

b. 20/c. Specifically designated for capital investment, principally industrial equipment. 21/

FOR OFFICIAL USE ONLY

during the year 1958, which appears to be barely possible, the scheduled debt repayments may create serious difficulties after 1960 when annual debt payments reach a maximum. The announced goal to increase exports by 22 percent and reduce imports by 12.5 percent, if achieved, will serve to eliminate the deficit for the year 1958, but exports to the Soviet Bloc must be expanded by another 15 to 25 percent by 1961 to meet requirements for debt service and repayments.

C. Capital Investment.

1. Rate.

The planned rate of capital investment was lower in 1957 than it had been since long-term economic planning started. The actual investment has somewhat exceeded the 8.2 billion forints planned for 1957. Investment was reduced radically in 1954 in accordance with the policies prescribed by the "new course" and has never been as high as the 1953 total (16.8 billion forints) since that time. With the start of the Second Five Year Plan in 1956, however, a higher level of investment was planned. It was expected that it would be supported by a higher national income. As officially calculated, the national income of 1955 was 94,291 billion current forints and in 1956 was expected to be about 97 billion forints. Planned investment was to reach 12.8 billion in 1956, or about 13 percent of the national income -- a rate which appeared moderate to Communist planners. The revolt prevented both national income and investment from reaching planned proportions in 1956, but the percentage of national income invested in that year appears to have been nearly 14 percent (see Table 10*). The planned investment for 1957 was the lowest in many years -- a total of only 8.2 billion forints. A part of this sum was supplied by the 4.3 billion forints available from loans extended by the USSR and other members of the Bloc. Preliminary reports indicate an overfulfillment of the investment plan by 20 percent. The rate of completion of investment projects was slower in 1957 than at any time since 1953. By the end of the third quarter the value of incomplete investment projects totaled 13.7 billion forints and had increased by 18 percent during the first 9 months of 1957.

2. Distribution.

More than 40 percent of the investment sum in Hungary for 1957 was allocated to housing and communal projects (education, health, and welfare). (See Table 11.*) The unusually high percentage for housing (30.5 percent) was used, in part, to repair the damage of the revolt and

* Table 10 follows on p. 31.

** Table 11 follows on p. 33.

FOR OFFICIAL USE ONLY

Table 10

Gross Capital Investment in Hungary
1953-58

Year	Current Prices	
	Total (Billion Forints)	Total as Percent of National Income (Current Prices)
1953	16.8 <u>a/</u>	28.5
1954	11.8 <u>a/</u>	13.8
1955	11.2 <u>a/</u>	11.9
1956	11.6 <u>b/</u>	14.1
1957	9.8 <u>c/</u>	10.4
1958 (Original plan)	9.5 <u>d/</u>	9.7
1958 (August plan)	11.3 <u>d/</u>	11.5

a. 22/
b. 23/
c. 24/
d. 25/

to renovate other housing which had fallen into disrepair. Neither the reduced allocation for investment nor its unusual pattern of distribution could be considered a criterion of future policy, as it was an emergency measure.

The industrial choices of Hungarian planners are revealed by their selection of investment priorities in the plan for 1958-60. Industry as a whole will receive about the same proportion of investment as it did in the First Five Year Plan -- about 44 percent. Within the 14.3 billion forints to be invested in industry, however, the percentage for electric power development will be more than twice as great, although the percentage for the machine industry is cut nearly in half and the allocation for metallurgy is only about 40 percent of that for the First Five Year Plan. Comparative percentages are as follows 26/:

FOR OFFICIAL USE ONLY

<u>Sector</u>	<u>1950-54</u> <u>(Percent)</u>	<u>1958-60</u> <u>(Percent)</u>
Heavy industry		
of which:	<u>92.2</u>	<u>90.3</u>
Machine industry	22.8	11.8
Metallurgy	20.4	7.8
Electric power	15.8	30.5
Consumer industries	<u>7.8</u>	<u>9.6</u>
Total industrial investment	<u>100.0</u>	<u>100.0</u>

The industrial fields in which Hungary expects to invest the Soviet capital loan and all that can be spared from its own budget are those which will furnish export goods or reduce imports of raw materials. Labor-intensive industries in which Hungary already has some competence and for which markets are already developed are to receive particular emphasis. In addition to finished products for export, Hungary plans further development of domestic raw and semifabricated materials to be used by industry. The export products to be developed include telecommunications equipment, television sets, precision instruments, and pharmaceuticals, all of which require relatively much labor and little material. The technology of these industries is to be modernized, but the immediate planned investment is small. The largest single investments of this type will be an enlargement of the Beloiannis Telecommunications Factory (100 million forints) and new equipment for instrument factories at Esztergom (20 million forints). The Mavag Factory will receive 100 million forints for investment in its dieselization program and will terminate its production of steam locomotives. Present production of diesel engines, traction engines, and motor trains will be multiplied. For the development of basic industrial materials, the installation of hot and cold rolling mills at the Danube Iron Works is planned, and the allocations in 1958 will include the continuous hot sheet and strip mill. It is claimed, also, that the modernization of the oil extraction, building materials, textile, paper, foundry, and chemical industries will be aided by the USSR. Considerable sums will be spent in 1958 on the earliest possible completion of the experimental atomic reactor received from the USSR.

The 1958 allocation to investment, finally set at 11.3 billion forints, is about the same as in 1955 and constitutes 11.5 percent of the expected national income. As the first year in the new Three Year Plan (1958-60), the 1958 plan inaugurates a return to a budgeted investment higher than in 1957 but still in conformity with a policy of

FOR OFFICIAL USE ONLY

Table 11

Percentage Distribution of Hungarian State Capital Investment, by Sector
Selected Periods, 1950-60

Sector	Distribution ^{a/}						Percent
	1950-54 Plan	1955 ^{a/}	1956 ^{a/}	1957 Plan ^{a/}	1958 Plan ^{b/}	1958-60 Plan ^{c/}	
Coal mining	8.7	10.4	11.0	12.5	N.A.	N.A.	
Metallurgy	8.3	4.5	4.9	3.1	N.A.	3.4	
Electric power	6.4	7.2	9.3	9.1	N.A.	13.6	
Chemical industry	5.4	5.5	5.4	4.9	N.A.	N.A.	
Building materials	2.7	1.6	2.2	1.8	N.A.	N.A.	
Machine industry	9.3	5.2	6.6	4.5	N.A.	5.2	
Total heavy industry	<u>40.8</u>	<u>34.4</u>	<u>39.4</u>	<u>35.9</u>	N.A.	<u>39.8</u>	
Light industry	1.8	3.5	3.5	2.5	N.A.	N.A.	
Food industry	1.6	4.0	3.4	1.7	N.A.	N.A.	
Total consumption industry	<u>3.4</u>	<u>7.5</u>	<u>6.9</u>	<u>4.2</u>	N.A.	<u>4.3</u>	
Total industry	<u>44.2</u>	<u>41.9</u>	<u>46.3</u>	<u>40.1</u>	<u>48.9</u>	<u>44.1</u>	
Building industry	2.6	0.8	0.9	0.5	0	0	
Agriculture	13.8	23.8	17.1	8.6	13.8	11.6	
Transport and communications	12.7	8.5	9.9	6.9	10.6	12.5	
Trade	2.5	3.2	2.7	2.3	0	0	
Housing	5.8	10.3	12.4	30.5	26.6	12.5	
Communal projects	9.1	10.5	9.3	11.0	0	0	
Miscellaneous	9.3	1.0	1.4	0.1	0	19.3	
Grand total ^{d/}	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

a. ^{27/}b. ^{28/}c. ^{29/}

d. Totals are derived from unrounded data and may not agree with the sum of the rounded components.

FOR OFFICIAL USE ONLY

moderation. The investment loan from the USSR will amount to an additional 1.2 billion foreign-exchange forints to be spread over the 3 years of the plan. During the entire 3-year period the investment of the state will total 32 billion forints, or an average of 10.7 billion forints a year. It is estimated that other sources of investment will bring the 5-year total for 1956-60 to 54 billion forints, compared with an investment of 67 billion forints in the course of the First Five Year Plan. The total state investment during the 3-year plan will amount to only about 12 percent of the anticipated national income for 1958-60 in contrast to the 20 to 25 percent invested during the First Five Year Plan. The goal for 1958 discussed in connection with the Three Year Plan announcement in June 1958 appears to be an increase over the goal originally announced, which was only 9.4 billion forints. Out of the total of 11.4 billion forints, 3.6 billion will go for replacement and 3.4 billion for social investment, leaving only 4.4 billion for new investment in the means of production.

State investment for the new Three Year Plan is allocated in such a manner as to favor housing at the expense of agriculture and social investment, although it is still an inadequate amount for that purpose. While the percentages for industry and for transport and communications are about the same as in the First Five Year Plan, the percentage going to agriculture is lower and that to housing is higher, as shown in the following tabulation:

<u>Sector</u>	<u>First Five Year Plan (Percent)</u>	<u>Draft Three Year Plan (Percent)</u>
Industry	44.2	44.1
Agriculture	13.8	11.6
Transport and communications	12.7	12.5
Housing	5.8	12.5
Other	23.5	19.3
Total state investment	<u>100.0</u>	<u>100.0</u>

The agricultural investment plan calls for larger sums for long-term loans to the producer cooperatives. The lower state allocation to agriculture, however, makes necessary the maintenance of farm income, especially in the private sector, sufficiently high to furnish the investment capital necessary to keep agricultural output high. It is planned that the income of the rural population will increase by 4 to 5 percent during the 3-year period.

FOR OFFICIAL USE ONLY

3. Maintenance.

Investment plans are complicated by several factors. In the first place, most of the projected major industrial investments will not affect the national income before 1960. In the meantime, maintenance of the present rate of personal consumption is considered a necessary incentive in order to maintain the present rate of production, particularly in agriculture, where compulsory quotas have been abolished. For this reason the rate of investment from Hungary's own national income cannot be increased greatly at present. Including the planned state investment of 32 billion forints for 1958-60, the total state investment for the entire period 1956-60 amounts to 67 percent of the investment fund of 78 billion forints originally projected for that period and to 12.3 percent of the national income planned for the 5-year period. An official attack has been launched against prevalent errors in the management of investment. Investment funds have not been concentrated on the completion of investments already begun but have been frittered away by starting many new projects and constantly adding to the backlog of construction begun but not completed. The backlog of uncompleted investments is to decline by 2 billion forints in the 3-year period. This would amount to only about one-seventh of the 1957 total.

V. Future Economic Problems.

A. Prevention of Inflation and Achievement of a Balanced Budget.

In 1958, with a 4.3-percent increase in national income, 90 percent of the total income will go to consumption. No assistance from foreign credits is expected for consumption purposes and only the Soviet loan previously mentioned for investment purposes.

The necessity of insuring a supply of goods capable of meeting the increased purchasing power of the people is recognized in Hungarian planning. The plan for 1958 estimates a 6.4-percent increase in retail trade compared with 1957. The state plans to maintain food supplies at the same relatively high level as in 1957. Agricultural crops are expected to be considerably below average in 1958, however, so that either planned exports or home consumption of food products must be reduced. Trade in articles of clothing is expected to increase by 10.6 percent with more synthetic materials and better quality ready-to-wear. The supply of other consumer articles will be increased by 13.6 percent. Consumer durables on the market will be increased as far as possible. For example, 50 percent more washing machines will be marketed, but furniture demands will not be fully met. Although the plan provides for increased retail trade, some steps have also been taken to reduce further the purchasing power of the people.

FOR OFFICIAL USE ONLY

The budget was balanced in 1957 by the revenue from foreign loans, but a heavy subsidy to the state enterprises was necessary in order to make up the losses of their unprofitable operations in 1957. Subsidies to enterprises working at a loss were estimated to be 7.8 billion forints. In 1958, both state revenues and expenditures will be reduced by 5 percent. Revenue from foreign loans, which balanced the 1957 budget, must be reduced considerably -- perhaps to the 900 million forints already obtained from the USSR for investment purposes. Subsidies designed to cover the domestic losses of the enterprises, caused largely by low utilization of capacity, probably will not be necessary in 1958 as production in most lines is back to normal. Export subsidies have been necessary for years to make up the difference between the domestic prices paid by the export agencies and the prices received in foreign trade converted at the official rate of exchange. Profits from the excess of domestic over foreign prices on imports, on the other hand, have been small. Relative foreign and domestic values, shown in Table 12,* will indicate the size of the net export subsidy paid in recent years.

State revenues that come directly from the population were somewhat reduced in 1956 and 1957. Some nuisance taxes on the people were discontinued after the revolt. State loans, which amounted to forced individual savings, as subscription was obligatory, have been abolished as a means of obtaining revenue. In early 1958, however, the agricultural taxes were increased for the landowners with larger holdings and better quality land. This action greatly increased the tax load on independent farmers and could amount to a rise of up to 37 percent on the larger private landowners. A tax on the employment of farm hands, amounting to 10 percent of the employer's income, is also to be introduced. The new tax rates were employed principally on the larger holdings and those having land of better quality. In addition to supplementing the present sources of revenue, these taxes may be designed to force the more substantial peasants to enter the cooperatives or face economic ruin. If the peasant income is cut materially, this will affect agricultural production because the state provides little assistance to agriculture or credit for increased investment outside the socialized area.

Money wages already have been reduced by tying them to production norms, and the price of many consumer goods has been increased. It has been estimated that about 40 percent of the increase in money incomes in 1957 was absorbed by price increases. Further price increases would reduce the level of consumption and would contradict official promises to hold the line on the standard of living. These moves to reduce real wages and farm income reflect the pressures felt

*. Table 12 follows on p. 37.

FOR OFFICIAL USE ONLY

Table 12

Hungarian Foreign Trade and Adjustment
Between Home and Foreign Trade Prices a/
1949 and 1954-56

Billion Forints at Current Prices

Year	Home Prices		Foreign Trade Prices		Home Prices		
	Exports b/	Imports c/	Exports	Imports	Surplus Expenditure on Exports c/	Surplus Receipts from Imports	Net Foreign Trade Subsidy d/
1949	4.79	4.52	3.29	3.38	1.50	1.14	0.36
1954	0	0	5.36	5.60	0	0	7.50
1955	20.56	10.81	6.21	5.65	14.35	5.16	9.19
1956	18.28	9.19	5.67	5.67	12.61	3.52	9.09

a. 30/

b. Value of exports at domestic prices paid by foreign trade agencies.

c. Value of imports at domestic selling price of foreign trade agencies.

d. Losses of foreign trade agencies on sales of exported goods minus the receipts on domestic sale of imports.

FOR OFFICIAL USE ONLY

by the regime (1) to prevent inflation, (2) to balance the budget, and (3) most importantly, to increase exports and decrease imports, thus bringing trade into balance for 1958. It is also necessary to provide sufficient capital to reorganize and expand the industries that will later furnish increased exports.

B. Achievement of a Balance of Trade in 1958.

The plan for 1958 foreign trade envisions a balanced trade with imports at about 6,800 million devisa forints and exports at 7,100 million devisa forints. This trade would allow for imports about 8 percent higher than in 1955 and exports of about the same value as those of that year. Thus a return to the 1955 conditions of foreign trade would amply satisfy the balanced foreign trade goal of the plan.

It will be difficult to achieve a foreign trade balance in 1958, which calls for a 12.5-percent reduction in imports and a 22-percent increase in exports above 1957 while maintaining the same level of consumption as in 1957. Preliminary data for the first half of 1958 showed that imports fell by 15 percent and exports rose by 47 percent compared with the same period of 1957, 31/ indicating a reduction in the trade deficit for the period compared, from 1,755 million devisa forints in 1957 to about 31 million devisa forints in 1958. In order to meet the plan for 1958, it will be necessary to reduce imports by 4.6 percent and increase exports by 5.5 percent in the second half of 1958 from their respective values in the first half of the year.

C. Requirements for Consumption and Export in 1958.

Consumption requirements for 1958 can be measured roughly by the planned increase in retail trade, which is 6.4 percent above that for 1957 and about 27 percent higher than in 1955. This percentage does not allow for some increase in retail prices which, in the case of food, averaged about 2 percent. Export requirements for 1958 will be about the same as in 1955, and import requirements for industrial raw materials will be somewhat higher than in 1955 on account of increased industrial production. It is planned that total industrial production exceed that of 1955 by about 11 percent.

Final consumption of goods by the population in 1955 was 64.2 billion forints, of which 60.4 billion forints accounted for foodstuffs and manufactured consumer goods. These items, except for consumption in kind of agricultural products, usually enter retail trade channels. The remainder was for rent, heating, and electric current, which are assumed to have remained constant. Assuming that the increase between 1955 and 1958 in the retail trade is approximately 27 percent as planned, the current value of consumption in 1958 may be estimated to be 80.5

FOR OFFICIAL USE ONLY

billion forints.* The value of domestic production must cover this level of consumption as well as maintaining an average investment level of 11.4 billion forints. The national income for 1958 is planned to reach 95.3 billion forints (estimated), in 1954 prices, or somewhat higher in current prices. Thus the total of planned consumption and fixed investment, about 92 billion forints, will practically equal the national income, leaving little margin for (1) additions to working capital, (2) a possible excess of imports over exports, (3) payment of foreign debts, or (4) other contingencies. So close is the margin of planning that any production difficulties or overinvestment may force a reduction in consumption, unless Hungary can obtain some additional foreign credits. Thus the consumer again would be forced to pay the price for maintaining simultaneously (1) sufficient exports to balance foreign trade and (2) the investment level considered essential for modernizing and integrating the Hungarian industrial structure and for increasing future production in industry and socialist agriculture.

For 1958, it was planned that farm product exports would be increased by 380 million forints. This was to be done without reducing the availability of foods at home, and this may be possible because the stocks rebuilt in 1957 can be drawn down to some extent. Agricultural production, as a whole, was planned to increase by 4.3 percent above the very good crop year of 1957, but this expectation is not likely to be realized. One of the major problems will be to increase the production of bread grains in sufficient quantity to avoid importation. The area sown to bread grains in 1957 was 10 percent less than in 1956, but the yield was 5 percent more.

D. Hungarian Ability to Produce an Export Surplus During the Decade of the 1960's.

Domestic production in the decade of the 1960's, in addition to maintaining the domestic consumption level for an increasing population, must furnish sufficient exports to pay for its own raw materials, for essential consumer goods not produced in Hungary, and for a balance over imports sufficient to cover payments on the foreign debt to countries of the Bloc over the period 1959-70. The largest repayment will be for the year 1961 -- a total of 180 million rubles, followed by 171 million rubles in 1962 and progressively smaller payments in the years thereafter through 1970. This would represent, at its maximum, an annual payment of 527 million devisa forints, or about 3 times that amount in domestic forints. 32/ According to the loan agreement, payments will be made in goods usually exported by Hungary, including ships, cranes, railroad rolling stock, metal-cutting lathes, precision instruments, and other

* Derived as follows: 127 percent of 60.4 = 76.7 + 3.8 (housing and utilities) = 80.5 billion forints (in comparable prices).

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

industrial goods as well as some agricultural products. The maximum annual payment of 180 million rubles would add 7.4 percent to the exports planned for 1958.

Total industrial production, according to plan, will exceed that of 1955 by about 29 percent in 1960 rather than by the 47- to 50-percent increase envisioned in the Second Five Year Plan, now abandoned. The increase above 1957 for industry as a whole will be 24 percent. 33/ Output in heavy industry will increase by 28 percent, and the light and food industry will increase 20 percent. Agricultural production is planned to increase 12 percent by 1960 above the average for 1954-56. There are few product groups on which Hungary could depend either to diminish imports or to furnish increased exports and thus eliminate the deficit of 2 million devisa forints incurred in 1957. Although the 1958 plan called for elimination of the imports of bread grains, fodder grain, and fats and for a decrease, at least from the quantities of former years, in the import of coal and basic raw materials, it now seems certain that wheat imports will be required because of a poor grain crop. Coal imports are down to normal, but reductions for some other materials are doubtful.

Electric power and the materials industries still have priority in the plans for the 3 interim years before another Five Year Plan is launched. The Three Year Plan (1958-60), published in June 1958, 34/ included targets for some basic industrial (or agricultural) materials which for the most part appear very low compared with previous plans (see Table 13*).

Of the industrial materials to be produced in more abundance, coal and crude oil will not be exports, except in minor quantities, although some petroleum products such as fuel oil and gasoline are shipped abroad (see Table 14** for statistics on Hungary's principal exports). Cement was exported before the revolt, and the quantity of aluminum metal sold abroad could be tripled if smelters were run at capacity. Aluminum, ordinarily produced for domestic use and export, was imported in 1957 for the use of the fabrication plants, but exports of bauxite and alumina were near normal in 1957. Plans for the future include an export of rolled steel products amounting to 500 million devisa forints by 1960 in addition to production sufficient to meet home needs; this surplus, however, probably will be earmarked to pay off the Soviet investment in the steel mill at Dunapentele. 35/ Installation of the hot sheet and strip mill will not be complete until 1960. Imports of rolled steel products increased about 11,000 metric tons in 1957, making up for a deficiency in production of that amount below the 1955 level. It is***

* Table 13 follows on p. 41.

** Table 14 follows on p. 42.

*** Text continued on p. 44.

FOR OFFICIAL USE ONLY

Table 13

Hungarian Production of Selected Basic Commodities
1955, 1957, and 1960 Plan

Commodity	Unit	Production			Percent of 1960 Above 1955
		1955	1957	1960 (Plan)	
Coal	Million metric tons	22.3	21.2	26.6	19
Electric power	Billion kilowatt-hours	5.4	5.4	8.3	41
Crude oil	Million metric tons	1.6	0.7	1.1	-31
Pig iron	Thousand metric tons	0.855	0.714	1.1	25
Steel	Million metric tons	1.63	1.4	1.65	1
Alumina	Thousand metric tons	154	154	200	30
Aluminum	Thousand metric tons	37	26	45	22
Sulfuric acid <u>a/</u>	Thousand metric tons	124	120	155	25
Caustic soda	Thousand metric tons	11.7 <u>a/</u>	11.5 <u>a/</u>	9.8 <u>b/</u>	N.A.
Artificial fertilizer <u>c/</u>	Thousand metric tons	123	N.A.	424	245

a. Including regenerative material.

b. Without regenerative material.

c. Nitrogenous and phosphorous.

FOR OFFICIAL USE ONLY

Table 14

Hungarian Foreign Trade in Principal Export Products a/
1955-57

Product	Unit	1955		1956		1957	
		Imports <u>b/</u>	Exports <u>b/</u>	Imports <u>b/</u>	Exports <u>b/</u>	Imports <u>b/</u>	Exports <u>b/</u>
Sunflower seed	Thousand metric tons	8	14	3	13	2	10
Husked rice	Thousand metric tons	17	13	25	32	29	44
Live slaughter hogs	Thousand metric tons	0	21	0	27	0	13
Live slaughter cattle	Thousand metric tons	0	18	0	33	0	40
Dressed poultry	Thousand metric tons	0	17	0	12	0	12
Eggs	Million	0	192	0	178	0	101
Wine	Thousand hectoliters	93	251	10	270	13	233
Commercial flour	Thousand metric tons	114	10	119	6	10	6
Refined sugar	Thousand metric tons	87	96	54	40	33	10
Commercial raw meat <u>c/</u>	Thousand metric tons	0	24	0	18	0	11
Salami	Metric tons	0	1,512	0	1,776	0	1,668
Sunflower oil	Thousand metric tons	0	23	0	10	0	16
Cooking oil <u>d/</u>	Thousand metric tons	0	5	0	6	0	3
Commercial butter	Thousand metric tons	0	4	0	5	0	4

a. 36/

b. 37/

c. At least 96 percent of this meat was pork and beef.

d. It is probable that a part of the cooking oil is produced from sunflower oil. The duplication existing in production between the two products does not apply, however, to the export quantities.

FOR OFFICIAL USE ONLY

Table 14
Hungarian Foreign Trade in Principal Export Products a/
1955-57
(Continued)

Product	Unit	1955		1956		1957	
		Imports b/	Exports b/	Imports b/	Exports b/	Imports b/	Exports b/
Bauxite	Thousand metric tons	0	554	0	376	0	467
Alumina	Thousand metric tons	0	79	0	89	0	90
Aluminum metal	Metric tons	1,596	7,860	204	5,280	11,208	1,452
Hot-rolled steel	Thousand metric tons	70	105	58	99	127	88
Cement	Thousand metric tons	0	292	10	190	16	25
Kerosine	Thousand metric tons	15	30	3	10	Negligible	14
Fuel oil	Thousand metric tons	21	62	22	15	39	101
Gasoline	Thousand metric tons	11	15	36	13	29	69
Asphalt	Thousand metric tons	0	6	0	22	0	50
Steam traction engines (275 horsepower)	Units	0	3,072	0	2,508	0	2,724
Railroad passenger coaches	Units	0	3,036	0	3,384	0	3,396
Auto buses	Units	0	708	0	708	0	780
Dump trucks	Units	0	2,064	0	1,596	0	2,316
Motorcycles (250 cm ³)	Thousand	0	6.9	0	6.6	0	8.5
Bicycles	Thousand	0	74.7	0	30.2	0	46.6
Passenger ships (450 horsepower)	Units	0	11	0	11	0	11
Cargo ships (1,100 tons)	Units	0	12	0	10	0	10
Tugs (400 horsepower)	Units	0	13	0	11	0	10
Harvester combines	Units	0	1,118	0	1,272	0	648
Center lathes	Units	0	732	0	804	0	924
Milling machines	Units	0	528	0	576	0	672
Drilling machines	Units	0	852	0	624	0	912
Superphosphate fertilizer	Thousand metric tons	0	23	0	26	0	62
Sulfuric acid	Thousand metric tons	0	20	0	7	0	7
Radio sets	Thousand	0	69	0	49	0	93
Light bulbs	Million	0	20.0	0	18.1	0	25.0
Papaverin, hydrochloride	Kilograms	0	14,304	0	11,124	0	14,028
Cotton stockings	Million pairs	0	3,096	0	3,744	0	4,284
Cotton cloth	Thousand square meters	0	105,684	0	90,324	0	60,516
Wool cloth	Thousand square meters	0	2,520	0	2,928	0	1,080
Shoes (men's, women's, and children's)	Thousand pairs	0	1,092	0	1,308	0	852
Wheat	Thousand metric tons	326	292	185	138	337	Negligible
Rye	Thousand metric tons	59	26	Negligible	41	0	0
Corn	Thousand metric tons	43	118	4	115	5	18

FOR OFFICIAL USE ONLY

doubtful that there will be any reduction of rolled steel imports before the new mill is in operation.

In general, the contribution of the raw materials industries in Hungary will be toward a reduction of the volume of 1957 imports and not toward increasing exports. This is not true of food products, which are traditional Hungarian exports. These include dressed poultry, eggs, salami, livestock, vegetable oil, wine, fruit, vegetables; paprika and some sugar, raw meat, and corn. Officials claim that more intensive use of the land will furnish a greater value in agricultural products. At the same time, however, they expect Hungary to regain its self-sufficiency in bread grain crops as well as to increase agricultural exports.

The Three Year Plan (1958-60) for light industry, according to the Minister, Mrs. Nagy, calls for an increased delivery of goods to foreign trade by 1960 of 17 percent above that of 1958. By 1960, production in light industry is to increase by 10 percent above 1958, or 20 percent above 1957. Textiles are the chief export of light industry. Export of textiles, which was generally lower in 1957 than in previous years, could be increased by 100 percent if production is raised to the 1955 level. It was claimed in 1955, however, that cotton textiles are uneconomic for export purposes because of the necessity of importing practically 100 percent of the cotton fiber, including high-quality fiber from non-Bloc countries. Manufacture of synthetic fiber has been started but is not yet able to furnish a significant part of textile raw materials. Consumer durables, which are manufactured by heavy industry, are both imported and exported. Radio sets, light bulbs, bicycles, and motorcycles are exported, but domestically produced household equipment -- such as washing machines, sewing machines, and refrigerators -- are badly needed on the home market.

The principal reliance of Hungary's Communist government for export materials has been on heavy machinery -- locomotives, railroad coaches, buses, trucks, ships and tugs, certain types of machine tools, and harvester combines. Most of these goods cannot be exported outside the Bloc because their design and quality are not sufficiently competitive. Diesel engines and electric engines will now replace steam engines for locomotives. Fully equipped factory units and electric power station equipment are exported not only within the Bloc but also to the Near East of Asia. Exports of electrical goods to South American countries predate World War II and serve to purchase Argentine hides and other essential materials. Electronic and telecommunications products are supplied to the Bloc, for both civilian and military purposes. Present intentions are to modernize this industry, concentrating on certain electronic products and precision instruments as major export items, although loss of skilled manpower during the revolt deprived the industry of some of its best technicians. In addition to machinery,

- 44 -

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

mechanical equipment, and instruments, Hungary plans to export chemical products. Aside from pharmaceuticals and petroleum products, however, Hungary has no surplus of chemicals for export at present. Production of nitrogen will be stepped up in the next few years, but any increase in production is needed in the manufacture of fertilizer and explosives.

Although Hungary has tried to increase its trade with non-Bloc countries through bilateral agreements, it has little chance of selling in competitive European markets until its products are modernized. Investment funds for expanding and modernizing the export industries are spread very thin and in 1957 were frittered away by starting many projects which could not be completed. Present intentions are to control investment more closely in the future and to concentrate on investment projects that will yield the quickest returns.

E. Conflict Between Current Economic Policy and Long-Term Communist Policy.

In spite of efforts to reduce imports by economizing on materials, by producing more at home, and by utilizing substitutes, Hungary cannot hope to reduce its import requirements very much below the 1955-56 level. Its ability to produce salable exports is likewise limited, as follows: (1) by the degree to which intensive cultivation of the land can be introduced and encouraged so as to result in greater production of export commodities; (2) by the ability of the country to develop industrial specialties which can be economically produced; (3) by the utilization of labor skills and the economies of mass production rather than the use of a greater quantity of material and more primitive methods of production; and (4) by the ability to replace obsolete machinery and equipment and thus to organize a higher quality of production. The task of organizing the economy for efficient production would be difficult, even if the planners followed rational lines of policy. There is a constant tendency in the Satellites, however, to shape economic policy to suit political ends and to revert to policies that have proved obstructive in the past.

In agriculture the private farms are well suited to intensive forms of agriculture such as the growing of fruits and vegetables and the raising of livestock, but the pressure on peasant owners to join collective farms, the frequent revision of landholdings, and the gross discrimination in taxation and other matters have constantly hampered the progress of the more substantial farm owners. The private peasants with the best quality land and the larger holdings are taxed so heavily that they are unable to make a good income, and little investment can be expected from them.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Although some progress has been claimed in the reorganization of industrial production in certain industries, this undertaking is given lower priority than the completion of the integrated iron and steel combine at Dunapentele. Heavy industry and, within heavy industry, the materials industries, are favored in the investment allocations so that plans for the advanced processing industries are delayed. Products exported to the USSR likewise are given priority over products destined for Western markets. Replacement of obsolete machinery and equipment is curtailed for want of adequate investment funds. Moreover, the vested interests among the ministries have been diverting the scarce investment funds to new construction rather than to completion of projects already under way, and new construction has long been favored over replacement of obsolete equipment.

These preconceived ideas, long a part of Communist economic doctrine, may prevent the reorganization of industry as well as agriculture on a more rational basis. If the regime must choose between meeting export commitments and improving, or even conserving, the consumer welfare during the next few years, the choice inevitably will favor the delivery of exports, and that choice will be self-defeating because both objectives must be attained in order to have a productive working force and a supply of materials for industry.

FOR OFFICIAL USE ONLY

Page Denied

Next 2 Page(s) In Document Denied

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY