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Hungarian Economy at the Dawn of EU-Accession

A chance to occur once every hundred years

- Since the end of the 19th century – the time of world wars destroyed all dreams - Hungary's chance to catch up has never been as high as now. Now, 100 years later there is a chance again, a chance which might not be repeated again.

Two turns to a new century

1900's

- The years of 1900's were the most flourishing period of the Hungarian economy from many aspects.
- Economic growth was so dynamic that only World War I and II could stop Hungary from reaching Austria's level of development.
- Those years were also characterised by a mushrooming of new firms and a boom in construction, industrial activities and modern industries.

2000's

- In the year of 2001 Hungary is beyond the historical, economic and social changes of systemic transformation.
- Growth rates are twice as high as the European average. The Hungarian economy has been fully integrated into the European market representing more than 70% of our exports to the EU.
- Our enterprises have already entered the Union. Since 1990 700,000 new SMEs have been established within a single decade.

- The last decade was characterised by the boom of shopping malls, hotels, and housing.
- The fastest growing cities that we can make mention of were Berlin, Budapest, Vienna, from which the Hungarian capital's central role in transport and trade was the most dominant. Budapest was also known as "Paris of the East".
- Budapest, as the location for headquarters of multinational firms, financial, touristic and service centre, is becoming a regional centre.
- In those remarkable years leading Hungarian scientists, inventors, winners of Nobel price raised the country's fame ("The 20th century was made in Budapest" – Nature, 2000).
- The German magazine (Spiegel) wrote an article about Hungary with a headline: "**Lenin's children in the cyberspace**". Certainly we are not children of Lenin, but it is true that the IT sector is booming now in Hungary
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- That was the time of the emerging of world-famous coffee shops and restaurants (just think of Dobostorta or gulas soup) and the country's hot spas became known all over the world.
- Thanks to the hundred-year-old remarkable traditional attractions of Hungary tourism is flourishing nowadays.
- Now, a century later Hungary **is on her best way to catch up** with the neighbouring Austria. In closing the gap between Hungary and Western-Europe EU-accession will be a milestone.

EU-accession: a milestone but not an end in itself

- Transition from a centrally controlled economy to a market economy took place **simultaneously with the integration of the national economy into the global and European markets**. At the beginning of the 1990's free trade agreements were signed by Hungary with EFTA and CEFTA member states. Furthermore, Hungary was the first country in the Central and Eastern European region to sign an **association agreement** with the European Community in 1994. In 1996, the country

became a member of the **OECD**, as well as **NATO** in 1999. The next – and **final - step** will be full integration: **Membership in the EU**.

- Being a member of the EU is not an end, but the beginning of something new, a **new European program of GROWTH**. “With growth against terrorism” is our new motto since September 11 as Blumenthal, President Carter’s former minister of finance said. There is of course a military solution, but in addition to that, our most important message is our beginning to grow. The same game, the game of growth has to be played **in all three arms of the TRIAD**. We have to avoid falling into recession. Promoting growth has to be co-ordinated and has to be made simultaneously in all major parts of the world. The USA started with promoting economy with the allocation of resources of 1.5% of GDP, whereas Europe, first of all Germany, is still hesitating. There is also a need for fiscal intervention in Japan and Europe. As a response to the world economic recession Hungary approved a new economic development package.

You might call these views “keynesianism”, though I think it is a very simplified way of commenting the issue. I would rather call it pragmatism. There is a decade-long on-going debate on the role of the state. For me, the question for the state is not whether to intervene or not, but when, how and why. According to **Charles Edquist: In a free market** economy intervention has two suppositions: Provided that intervention is carried out without threatening macroeconomic stability there have to be funds available and there should also be a reason, a challenge or a problem, which the market cannot handle. As **Peter Krugman** from MIT was asked after the reason for the Irish success, he mentioned three factors, namely: **“good policy, good timing, and good luck”**.

- The sustainable development programme should also be the motto of the new European Union in which the European periphery could receive a decisive role. EU-enlargement is investing in the future for both sides. As **Joschka Fischer said**: “EU Enlargement will be a growth project both for Western and Central-Eastern Europe.

However, before that investments should be launched. The European growth project is not for free" („das bekommt man nicht zum Nulltariff“).

- The fact that Hungarian economy entered the path of persistent development opened up the way for Hungary's integration into Europe. The initial result of this process was the **growth of the per capita GDP measured by purchasing power parity from 47% to 52% in relation to the EU average for the period between 1996 and 2000.**
- A **key factor** in economic growth was the **rapid improvement of productivity** by more than 3 percent per year. This rate of growth is above the EU average and is better than in the emerging South European countries, that is, Spain, Portugal and Greece. In the first half of the 1990's, the basis of this improvement was the ceasing of corporate over-employment. In the period under review, the population of working age increased continuously, while the number and proportion of employed and active inhabitants decreased. However, in the last third of the decade there was an increase in employment, which played an important role in the growth of the GDP. A crucial element in the increase of efficiency was the influx of foreign working capital promoting the creation of competitive and rapidly expanding production capacity and also a fundamental change in the production structure.
- All these developments show that Hungary started a rapid close up **before becoming a member** of the EU. The Cohesion countries of the European Union have been receiving significant financial support from the Cohesion and Structural Funds for the promotion of catching up with the other member states. **Ladies and Gentlemen, just imagine how this process will accelerate if we become a member!**

Széchenyi-Plan: A program based on the partnership-principle

- Hungary has been implementing – as first country in our region – a complex mid-term development program. Széchenyi-plan is named after a great Hungarian Statesman of the 19th century. The Plan can be described as a Hungarian New Deal, or an action plan for national development.

As a medium-term economic development plan, the Széchenyi Plan **intends to:**

- deepen and widen the basis of growth;
- provide for economic hotspots; and
- mobilise domestic and foreign economic resources.
- Hungarian government in partnership with business is trying to integrate foreign companies into the network of national firms by involving SMEs as suppliers.
- The Plan also envisages to promote SMEs to grow and earmarks broad projects like new highways, regional development, tourism, housing, research and development, which could be attractive for foreign investment.
- The Széchenyi plan is also to promote **knowledge driven/based society**. You had better say “**learning**” instead of “**knowledge**”, as the story is much more about learning, „the learning economy”, **the ability to learn**. The Széchenyi Plan helps the development of the “learning economy” through promoting enterprises and important institutions, which are able to adopt new challenges. As Francis Bacon said: “Knowledge is the secret path to paradise, or according to Peter Ducker “Nowadays knowledge is the only source of economic development”.

But all these lead me back again to the game of growth

- The sources of economic close up are different today than it was in the 1980’s. Those are the **combination of three major resources: domestic, global and EU-resources** are the three sides of a magic triangle. Our task is to use and to co-ordinate these assets to prevent them from neutralising each other and help them to strengthen each other. All those who are not able to co-ordinate, such as Greece, will fail. The Széchenyi Plan has already **found a balance** between domestic and foreign

resources. Its further task is to include the third means, the EU support or better to speak of the preparation for implementing the resources from the EU-Funds. Building in EU-specific elements (infrastructure, human infrastructure, agriculture etc.) is the major task of the Széchenyi-Plan **for the near future**.