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The direct Effects of Hungary's Accession to the European Union on foreign Enterprises

Foreign direct capital investments have played a key role in the successful structural transformation of the Hungarian economy since 1990. The ongoing inflow of foreign working capital has made essential contribution to the improvement of productivity, the technological modernisation, the creation of export capacities required for a healthy structural growth, and the creation of jobs. Besides, the inflow of non debt-generating working capital also has a definitive role in the improvement of the external financial balance. During the past one and a half decade, the most part of direct foreign capital investments (29%) came from Germany. Besides, substantial parts were contributed by the Netherlands (20%), Austria (11%), the USA (5%) and France (4%). Altogether about 80% of the working capital investments is generated from the European Union.

Nearly half the direct foreign capital investments flowed in the 'Manufacturing' sector (15.2 billion Euros, that is 45.8%, according to data from the end of 2003), out of which the most working capital was attracted by the 'Manufacture of transport equipment' (3.8 billion Euros, 11.3%), the 'Manufacture of electrical and optical equipment' (3 billion Euros, 9%), and the 'Chemical products' (2.5 billion Euros, 7.6%) sectors. 46.9% of the working capital investments (15.6 billion Euros) was absorbed by the service sectors, and the highest volume of direct foreign capital investment was realised in the 'Real estate, renting and business activities' (5.6 billion Euros, 17%), the 'Financial intermediation' (3.3 billion Euros, 10.1%), and the

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'Wholesale and retail trade; repair of motor-vehicles, motorcycles and personal and household goods' (3.2 billion Euros, 9.8%) sectors.

The examination of the past decade's figures shows that the inflow of working capital stood at relatively stable value of 3 to 4 billion Euros on a yearly basis. In 2004, the direct foreign capital investments realised amounted to 3 708 million Euros in Hungary, which was nearly twice as much as the previous year's, and constituted the highest yearly inflow since 2001. Out of the total inflow, the non-debt working capital amounted to 3 236 million Euros. Within that, the inflow of shares and other holdings amounted to 182 million Euros, and value of the investments realised in the form of re-invested income reached 2 154 million Euros. In 2004, 472 million Euros flowed in the country in the form of other capital movements.¹

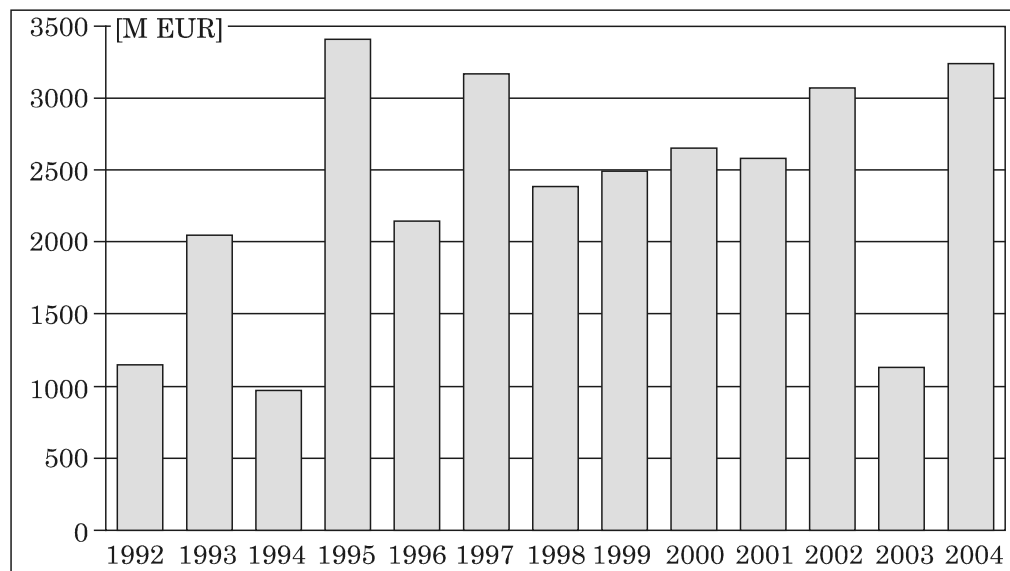


Figure 1
Direct capital investments in Hungary between 1992 and 2004²

There was an intense increase in the working capital inflow towards Central and Eastern Europe in 2004; the total value of the direct foreign capital investments realised in the Visegrád Countries more than doubled, as compared to the year before. (The increase in the foreign working capital inflow was 148% in Poland, 96% in Hungary, 93% in the Czech Republic and 52% in Slovakia.) Hungary's position in the region did not change considerably from the previous year, meaning that the relative loss of ground occurring in the previous years was primarily attributable to the intensifying privatisation in the neighbouring countries around the Millennium.

¹ Source: http://www.gkm.gov.hu/feladataink/kulgazd/mukodotoke/fdi_aktualis.html

² Source: http://www.mnb.hu/engine.aspx?page=mnbhu_statistikai_idosorok

DEVELOPMENT OF THE SUBJECT ORGANISATIONS AND THE NUMBER OF EMPLOYEES

My calculations are based on the key balance sheet and income statement figures of non-financial companies submitting tax declarations for the years 2003 and 2004. I, have several times, integrated data available from the Hungarian Central Statistical Office (KSH) publications and the Office's homepage in my database. The diagrams and the table were developed based on my own calculations using data obtained from KSH.

According to the available data from 2003, 89.35% of the enterprises were private and 9.85% foreign owned¹. Table 1 illustrates that, by 2004, the ratio of businesses with private majority ownership further increased (*from 89.35% to 91.62%*), gaining share from the majority foreign and state ownership (*from 9.85% to 7.78%*, and *from 0.80% to 0.60%*).

*Table 1
Development of the number of organisations*

Ownership	2003	2004
Foreign	21 853	23 267
Private	198 144	274 143
State owned	1 767	1 800
Total	221 764	299 210

The increase in the number of organisations conducting double-entry bookkeeping by 34.92% was partly attributable to the new provisions of the re-codified Act on Accounting² effective as of 1 January 2001, based whereon:

- Newly established economic operators without legal status were no more allowed to choose submitting simplified reports with single-entry bookkeeping, and
- Economic operators without legal status conducting single-entry bookkeeping were last allowed to develop simplified report for the business year lasting until 31 December 2003, and they were forced to change to double-entry bookkeeping from the single-entry one as of the 1st January, 2004.

According to the data of tax declarations, out of the total subscribed capital, 43% was foreign owned, 25% was owned by domestic businesses, 13% was domestic privately owned, 12% was state owned, 5% belonged to the local governments, and 1% was owned by cooperatives in 2003. The outer ring in figure 1 indicates the data from 2004. The above ratios slightly changed in 2004; the ratio of foreign ownership decreased (*to 39%*), while that of domestic corporate and domestic private ownership increased (*to 26% and 15%, respectively*).

¹ Foreign owned businesses comprise of companies with more than 50% share in the ownership.

² Act No. C of 2000 on accounting.

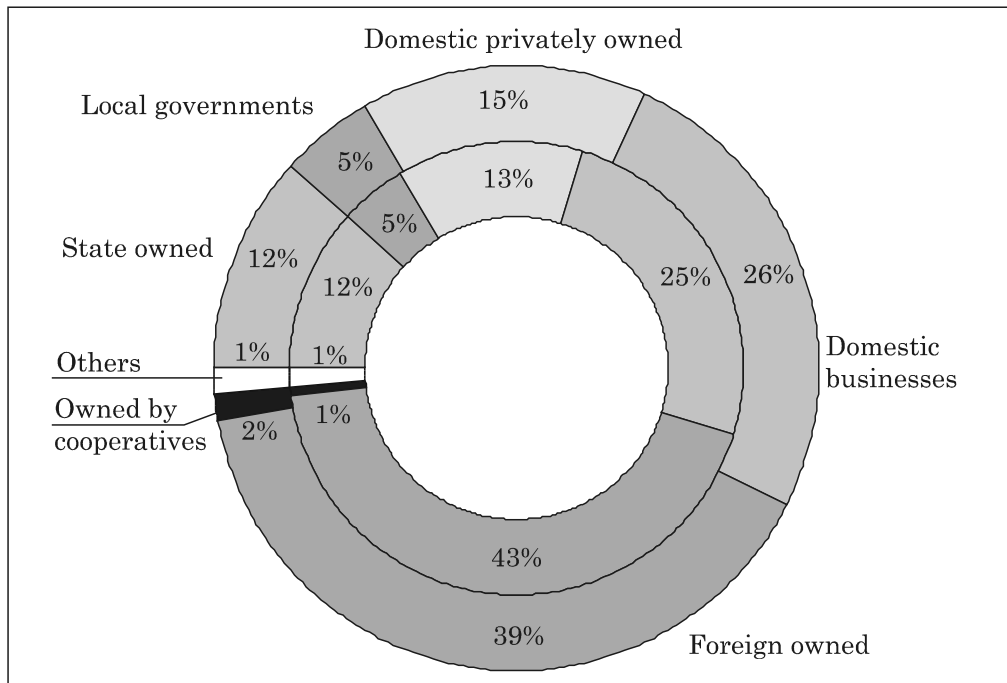


Figure 2

Distribution of the subscribed capital by ownership in 2003 and 2004

According to the distribution of businesses conducting double-entry bookkeeping by the sectors of the national economy, more than 80% (82.45%) of the foreign owned enterprises operated in the 'Wholesale and retail trade; repair of motor-vehicles, motorcycles and personal and household goods', the 'Real estate, renting and business activities' and the 'Manufacturing' sectors in 2003. These are the most popular ones in the privately owned businesses too, however, the above ratio is 67.75% here, which means 134 251 enterprises. In 2003, most of the state owned companies (1 075 in total) operated in four sectors: 'Real estate, renting and business activities', 'Other community, social and personal service activities', 'Electricity, gas and water supply' and 'Agriculture, hunting, forestry and fishing'. Considering the changes in the foreign owned businesses in 2004, the highest growth rates were produced by the 'Health and social work' (38.64%) and the 'Electricity, gas and water supply' (23.81%) sectors. In case of the privately owned businesses, the highest growth was also achieved by the 'Health and social work' (109.81%) industry, and it was followed by 'Education' (81.74%) and 'Other community, social and personal service activities' (55.71%). Considering the number of organisations, the highest increase occurred for both ownership structures in the 'Wholesale and retail trade; repair of motor-vehicles, motorcycles and personal and household goods' and the 'Real estate, renting and business activities' sectors (784 and 409; 19 636 and 18 297, respectively) in 2004. In case of the foreign investment businesses, only the 'Manufacturing' sector showed decrease at a level of 3.97% (121 entities). The pri-

vately owned organisations produced increase in all sectors¹, with the lowest (53 entities) occurring in the 'Mining and quarrying' sector.

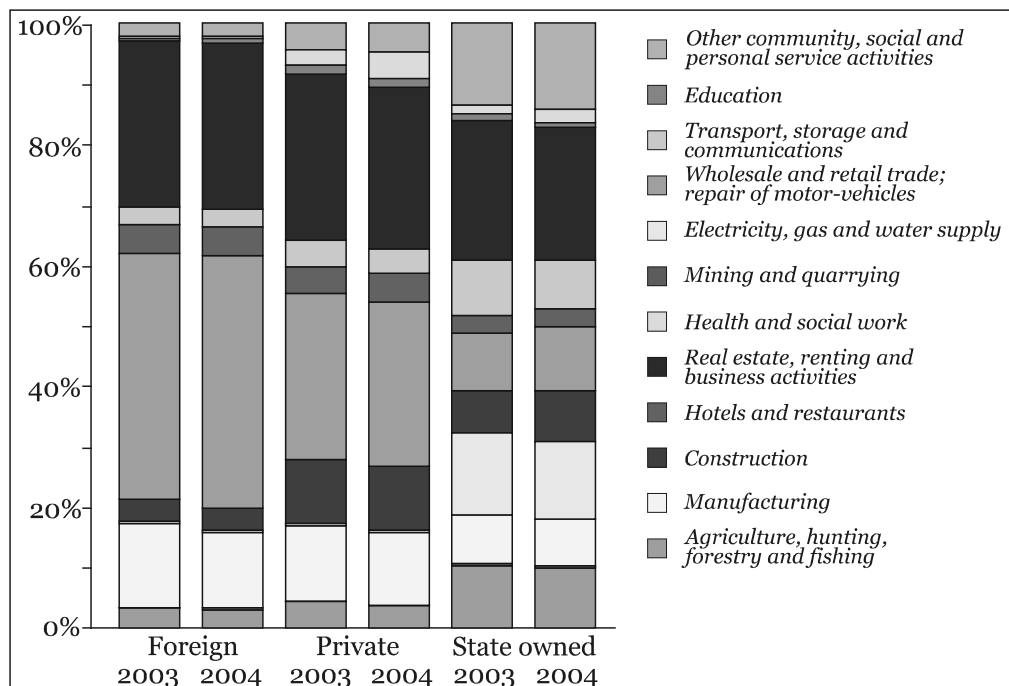


Figure 3
Distribution of the subject organisations by sectors of the national economy

The number of employees was the highest, for both of the foreign and privately owned businesses, in the 'Manufacturing' and the 'Wholesale and retail trade; repair of motor-vehicles, motorcycles and personal and household goods' sectors in 2003. These two sectors employed respectively 81.55% (393 268 persons) and 54.67% (699 818 persons) of the people working within the frames of the mentioned two ownership structures. In the state owned companies, the most, that is 151 503 people were employed by the 'Transport, storage and communications' sector, which was followed by 'Electricity, gas and water supply' with 54 804 persons. These two sectors together employed 72.90% of all employees within the frames of the given ownership structure. The above four sectors together accounted for 33.13% of all jobs in 2003.

While the number of employees increased by 71 717 according to the consolidated figures of enterprises with double-entry bookkeeping, the individual ownership groups show opposite changes in the subject period. In the privately owned businesses, the number of employees increased only by 10.83% (138 672 persons), while

¹ The number of companies with single-entry bookkeeping was 80 886 in 2003, but decreased to 822 by 2004!

that of the organisations increased by 38.36% in 2004. With the exception of 'Agriculture, hunting, forestry and fishing' (- 10 persons) and 'Mining and quarrying' (- 505 persons), the number of employees increased in the remaining ten sectors. Despite a 6.47% in the number of foreign owned organisations, the number of employees decreased by 10.92% (52 655 persons) during the subject period. The largest decrease (44 678 persons) occurred in the number of people employed in the 'Manufacturing' sector. Within the 'Manufacturing' sector, the number of employees decreased by 14 592 in the 'Manufacture of electrical machinery and apparatus n.e.c.', despite an unchanged number of organisations, and by 10 744 in the 'Manufacture of radio, television and communication equipment and apparatus' with a decrease by thirteen organisations. Within 'Manufacturing', the number of employees increased in the 'Manufacture of basic metals' and the 'Manufacture of paper and paper products' industries by 3 902 and 1 290 persons, respectively, in 2004. While the number of organisations decreased by five entities in the former, it increased by four in the latter.

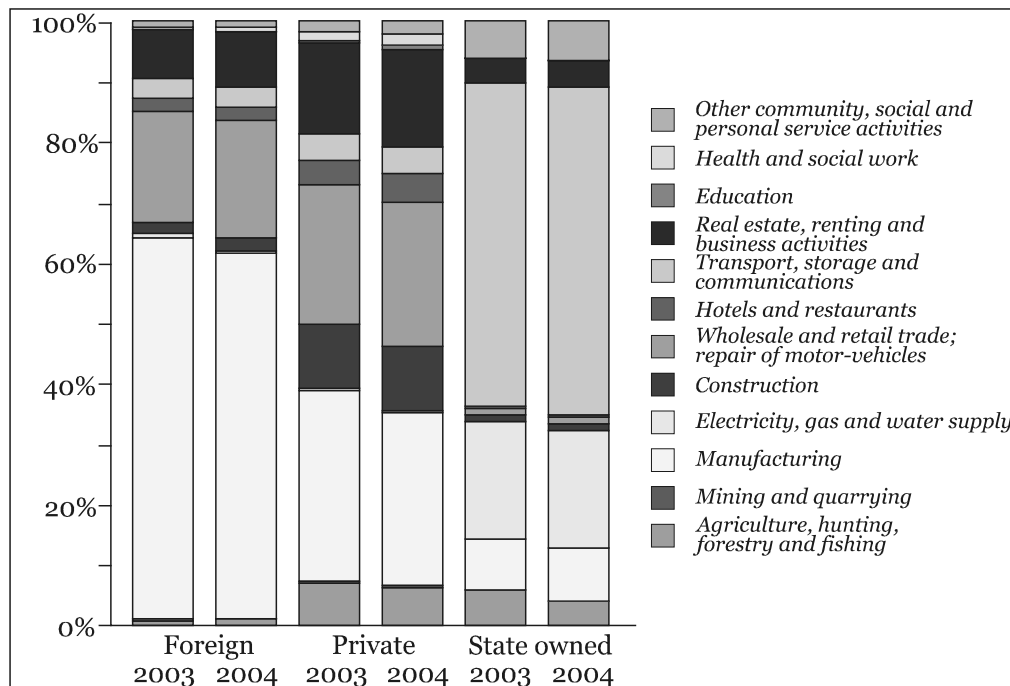


Figure 4
Distribution of employees at the subject organisations
by sectors of the national economy

Considering the foreign owned companies, the average number of employees per one organisation decreased the most in the 'Electricity, gas and water supply' sector by 2004. The decrease of the indicator by 24 persons/company resulted from simultaneous increase in the number of organisations by 23.81%, and decrease in the number of employees by 28.14%. This is followed by a 11 persons/company decrease in the 'Manufacturing' sector. Within the frames of this ownership structure, the indicator value decreased in all sectors, except 'Electricity, gas and water supply', 'Health and social work' and 'Other community, social and personal service activities'. In the said sectors, the increase in the number of organisations was proportionally followed by the increase in the number of employees. For privately owned organisations, the indicator value decreased the most in the 'Mining and quarrying' and the 'Manufacturing' sectors; from 16 persons/company to 13 persons/company, and from 16 persons/company to 12 persons/company, respectively. In the 'Mining and quarrying' sector, the 16.01% increase in the number of organisations was accompanied by a 9.33% decrease in the number of employees, while in the 'Manufacturing' sector, the 1.04% increase in the number of employees stayed far behind the 33.26% increase in the number of organisations in 2004. For state owned companies, the indicator shows 86 persons/company growth in the 'Transport, storage and communications' sector, which is the result of simultaneous decreases by 15.59% in the number of organisations, and 3.38% (*5 128 persons*) in the number of employees. The 2 persons/company increase of the indicator for 'Mining and quarrying' might be attributable to the same reason (*33.33% and 14.58% decrease, respectively*). There was a significant decrease in the number of employees in the 'Agriculture, hunting, forestry and fishing' sector, where the number of organisations fell 3.26%, while the number of employees 31.42% (*5 104 persons*) during the subject period.

DEVELOPMENT OF THE ASSET VALUE FOR THE SUBJECT ORGANISATIONS

Out of the total asset value of the subject organisations, 42.61% was recorded in foreign, 41.75% in privately and 15.65% in state owned enterprise books in 2003. The asset value of 15 870 billion HUF accounted in the foreign owners records decreased by 4.18% in 2004, despite the increase in the number of organisations. The increases of 16.63% and 0.47% in the private and state owned sectors, respectively, are quite moderate, as compared to the rising number of organisations. By filtering out the changes in the number of organisations, we obtain fall for all of the three ownership structures. Such fall reaches 1 587 billion HUF for the foreign owned, 2 442 billion HUF for the privately owned, and 80 billion HUF for the state owned sector. While the average asset value per one organisation amounts to 78 billion HUF/company for majority private ownership, it reaches more than nine times as much, that is 726 billion HUF/company for the majority foreign ownership. By 2004, the indicator fell to 66 billion HUF/company, and 654 billion HUF/company respectively.

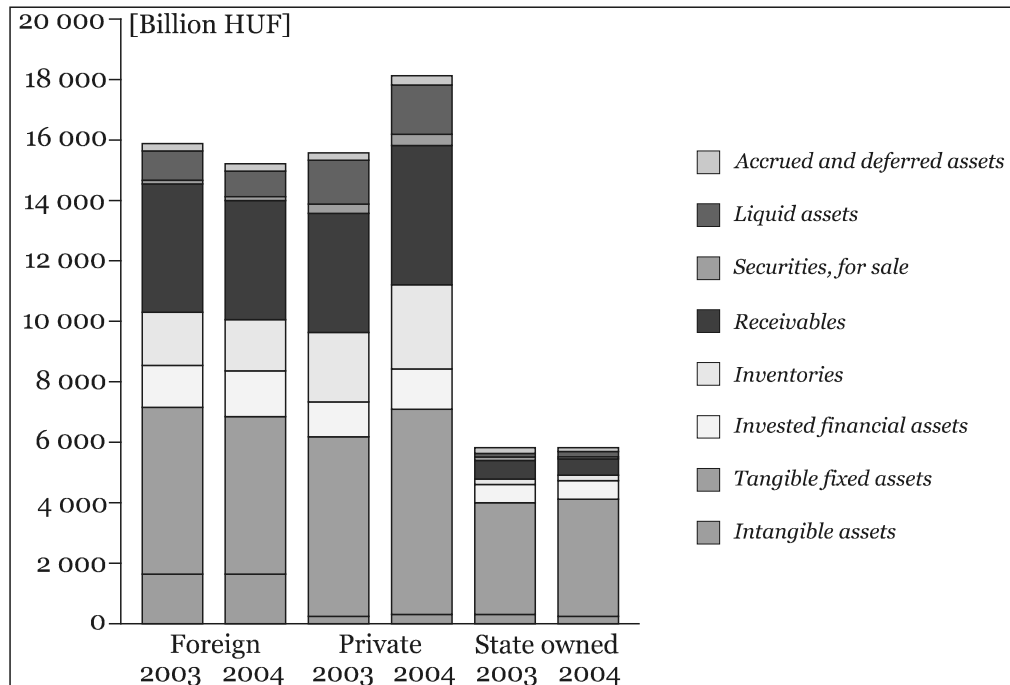


Figure 5
Development of the asset value for the subject organisations

Notwithstanding a 34.92% increase in the number of organisations, the value of investment assets increased only by 5.02% in 2004. *Figure 5* shows that, while the ratio of intangible assets is 12.12% and 13.46% respectively for the privately and state owned organisations, it is 74.42% for foreign owned enterprises. The calculation of the average of intangible assets per one organisation, we obtain 75 M HUF/company for foreign owners, 1.3 M HUF/company for private owners, and 168 M HUF/company for the state owned businesses. By 2004, this indicator decreased by 5.83%, 17.49% and 6.24% respectively.

The ratio of tangible assets within the total assets was 34.77% for foreign, 37.97% for privately owned enterprises, at the same time, it showed an outstanding value of 63.76% (3 716 billion HUF) for state owned organisations in 2003. Considering the average of tangible assets per one organisation, the indicator is 8.48 times as high as in the foreign owned sector, and 70.63 times as high as in the state owned sector, as it is in the private sector. By 2004, the indicator fell 11.05% and 16.83% for foreign owned and privately owned businesses, respectively, while it increased for state owned enterprises (by 1.89%).

Based on the consolidated balance sheet figures, the proportion of financial investment assets was 43.86% for foreign, 36.93% for private, and 19.21% for state owned organisations in 2003. The average of investment assets per one organisation was 64 M HUF/company for foreign, 6 M HUF/company for private, and 344 M HUF/company for state owned organisations. Considering the assets side of the

balance sheet, this is the only group showing a slight, but still increasing trend of 0.01% (9th HUF/company) in 2004 for the foreign owned businesses.

Nearly 70% (69.82%) of the total investments assets was recorded in the books of only eight industries in 2003. In the foreign owned sector, the highest volumes of investment assets were recorded in the books of enterprises operating in the 'Real estate activities', the 'Other service activities' and the 'Manufacture of chemicals, chemical products' industries totalling 3 829 billion HUF. For the privately owned enterprises, the first two places were taken by the same industries, while the third place by the 'Wholesale trade and commission trade, except of motor-vehicles, etc.' industry. Considering the first two industries, over eight times more enterprises owned only 62.96% of the investment assets of foreign owned organisations. In the state owned sector, over 70% (71.86%) of the investment assets belonged to the first three industries being 'Electricity, gas, steam and hot water supply', 'Land transport; transport via pipelines' and 'Post and telecommunications'.

The average of tangible assets per one organisation ran the highest in the 'Manufacturing', the 'Manufacture of motor vehicles, trailers and semitrailers' (6 238 M HUF/company) and the 'Manufacture of tobacco products' (6 209 M HUF/company) industries in 2003. In the privately owned enterprises, the indicator shows the highest value in the 'Electricity, gas, steam and hot water supply' industry at 785 M HUF/company, while in state owned organisations, in the 'Post and telecommunications' industry at 19 983 M HUF/company. For foreign owned organisations, the highest value of the indicator rose to 6 588 M HUF/company with the number of organisations decreasing by 3.49%, while it increased to 765 M HUF/company for the private sector with the number of organisations increasing by 32.98%, and for the state owned sector, it increased to 21 815 M HUF/company with the denominator decreasing by 12.50%. For the foreign owned sector, the average of participations in associated companies per one organisation was the highest also in the 'Manufacture of tobacco products' industry (1 872 M HUF/company) in 2003. It was followed by the 'Manufacture of chemical products' with 1 095 M HUF/company. For the privately owned organisations, this indicator ran the highest in the 'Manufacture of basic metals' industry at 74 M HUF/company, however, it fell by 85.26% with a simultaneous increase of 17.22% in the number of organisations in 2004-ben. Considering state owned companies, the indicator takes its highest value for the 'Post and telecommunications' industry after an increase from 8 135 M HUF/company to 9 678 M HUF/company during the subject period.

As regards the current assets, we obtain a similar image to the changes introduced for investment assets. On the bases of the consolidated figures, the 5.30% increase in the current assets turns into a 21.95% after filtering out the changes in the number of organisations. Out of the total current assets, 43.94% was accounted for foreign, 49.52% for privately, and 6.54% for state owned enterprises in 2003.

Within the current assets, receivables represent the highest ratio with 59.50%, 49.76% and 53.24% respectively. The average of receivables per one organisation was 193 M HUF/company for foreign, 20 M HUF/company for privately, and 317 M HUF/company for state owned enterprises. This was also the indicator showing the largest fall in 2004. The average of receivables per one foreign owned organisation decreased by 23 M HUF with a 6.47% increase in the number of organisations during the subject period.

While the ratio of trade accounts receivable was 39.05% within the total receivables for foreign owned companies, it was 55.52% for privately owned, and 50.94% for state owned ones in 2003, showing slight fall in 2004.

Within the current assets, the decrease was the highest for securities. The average of securities per one organisation decreased by 41.58% (*3 M HUF/company*) in the books of foreign, by 16.51% (*259 th HUF/company*) in those of private owned, and by 41.26% (*30 M HUF/company*) in those of state owned companies.

The indicator of liquid assets decreased from 44 M HUF/company to 36 M HUF/company for foreign, and from 7 M HUF/company to 6 M HUF/company for privately owned companies, while it increased from 97 M HUF/company to 100 M HUF/company for state owned companies by 2004.

Considering the sectors of the national economy, the average of trade accounts receivable per one organisation reached the highest in the 'Manufacturing' sector for both the foreign and privately owned organisations. Within this, the 'Manufacture of tobacco products' industry was the leader with respectively 1 565 M HUF/company and 1 747 M HUF/company indicator values in 2003. For privately owned enterprises, the indicator value increased by 82.42%, although the number of organisations did not change. In the state owned enterprises, the indicator went the highest in the 'Electricity, gas, steam and hot water supply' (*1 635 M HUF/company*) and 'Post and telecommunications' (*1 195 M HUF/company*) sectors in 2003. However, while the indicator decreased by 3.35% with a 3.66% increase in the number of organisations for the first industry, it increased by 12.90% with 12.50% decrease in the number of organisations for the second.

DEVELOPMENT OF THE LIABILITIES FOR THE SUBJECT ORGANISATIONS

The amount of the shareholders' equity accounted in the books of enterprises with double-entry bookkeeping increased by 4.22%, from 16 121 billion HUF to 16 801 billion HUF. The increase in the shareholders' equity was the result of a 14.59% increase in the private ownership, together with decreasing foreign and state ownership (*by 2.75% and 1.79%, respectively*). Filtering out the changes in the number of organisations, the shareholders' equity decreased by 609 billion HUF for foreign, 1 087 billion HUF for privately, and 50 billion HUF for state owned organisations.

The ratio of the shareholders' equity within the total liabilities was 44.36% based on the consolidated figures of foreign owned enterprises, while it was 40.70% for the private, and 47.26% for the state owned organisations. The indicator value slightly improved by 1.49% for foreign owned companies, and slightly fell by 1.73% and 2.24%, respectively for privately owned and state owned enterprises in 2004. The average of shareholders' equity per one organisation was 322 M HUF/company for foreign, 32 M HUF/company for private, and 1 558 M HUF/company for state owned enterprises. The indicator fell by 8.66%, 17.18% and 3.59% respectively in 2004.

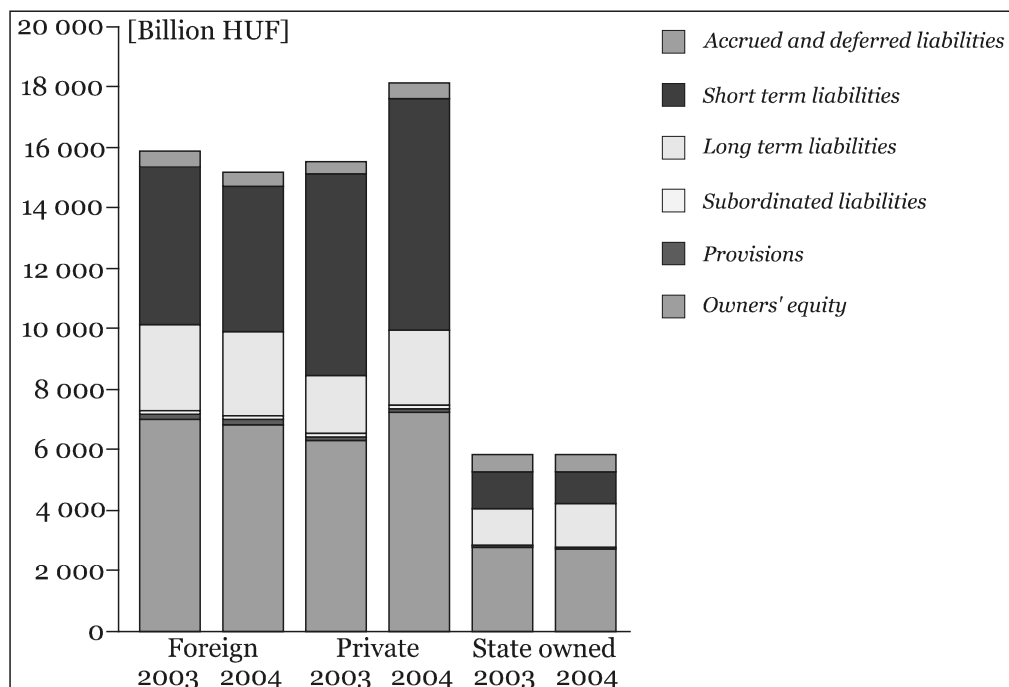


Figure 6
Development of the liabilities for the subject organisations

Examination of the elements of the shareholders' equity based on the consolidated figures, subscribed capital decreased by 4.30% (318 billion HUF) during the subject period. Within the subscribed capital, the highest decrease, in respect of both its proportion and amount, occurred for the foreign owned sector (by 13.19% that is 383 billion HUF). Further study of the individual elements of the shareholders' equity shows a minor increase of 1.3 billion HUF for the unpaid share capital. Within this element of the shareholders' equity, the increase was 2.9 billion HUF for foreign, and 173 million HUF for state owned organisations. Out of the 75 billion HUF increase of the capital reserve, the foreign owned sector accounted for 127 billion HUF, while the state and privately owned sectors showed 26 billion HUF decrease each. The increase in the accumulated profit reserve by 11.79% (432 billion HUF) cannot be attributed to the organisations with foreign majority ownership either. In case of this ownership group, the given element of the shareholders' equity decreased by 48 billion HUF, while it decreased by 89 billion HUF in the state owned sector. The increase in the tied-up reserve by 160 billion HUF was the result of simultaneous positive changes in all of the three ownership groups. It is worth noting that, with the 127 billion HUF increase in the capital reserve, and the 48 billion HUF decrease in the accumulated profit reserve, the tied-up reserve still increased by 101 billion HUF in the foreign owners. In case of the organisations with private majority ownership, tied-up reserve increased by 58 billion HUF, despite a decrease in the capital reserve, and a 569 billion HUF increase in the accumulated profit reserve.

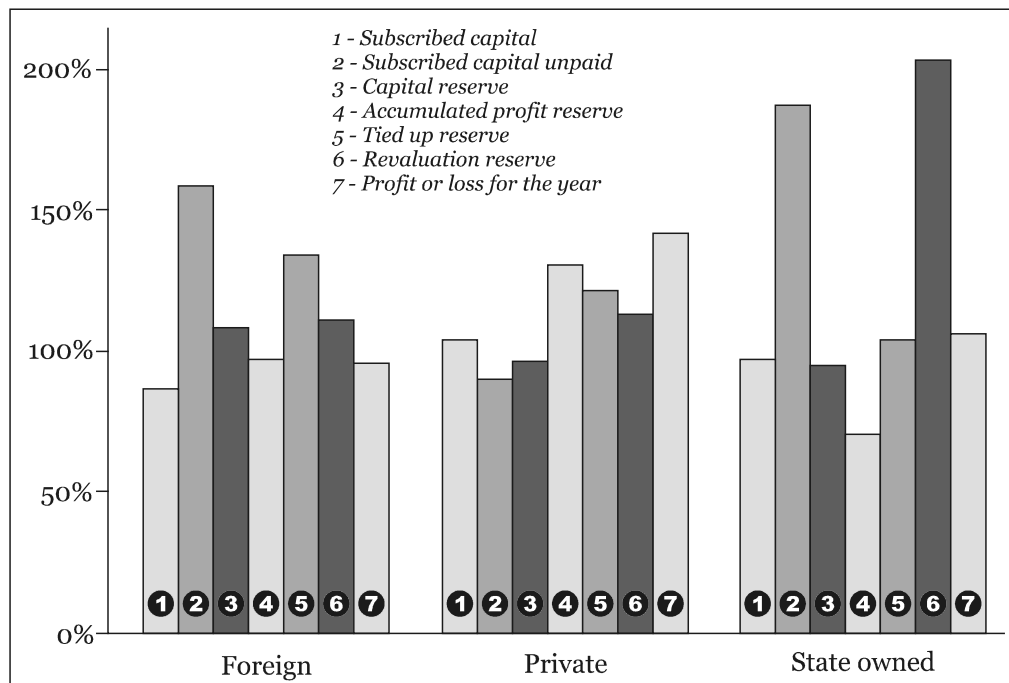


Figure 7

Changes in the elements of the shareholders' equity from 2003 to 2004

The increase of 218 billion HUF in the revaluation reserve is mainly attributable to the state owned enterprises (accounting for 116 billion HUF). For the privately owned organisations, the 13.17% (68 billion HUF) increase with the number of organisations increasing by 38.36% actually means a decrease, on the average. In Figure 7, the column of the profit or loss for the year is higher than 100% for the state owned group too, however, this overplus (6,49%) indicates the increase of losses from 57 billion HUF to 61 billion HUF. The profit for the foreign owned sector was more than 20 billion HUF less than in the year before. Taking into account the development of the number of foreign owned organisations (increasing by 6.47%), the 4.03% decrease becomes even more. On the other hand, the 41.76% increase in the profit for domestic companies gives a positive image, with the 38.36% increase in the number of organisations even.

Examination of the foreign owned enterprises broken down to industries, we obtain that the average shareholders' equity per one organisation was the highest in the 'Manufacture of motor vehicles, trailers and semitrailers' industry with 11 449 M HUF/company in 2003. It was followed by 'Manufacture of tobacco products' with 7 782 M HUF/company, then 'Manufacture of chemicals and chemical products' with 6 492 M HUF/company. The highest increase showed in the 'Manufacture of basic metals' (from 4 503 M HUF/company to 6 964 M HUF/company) and the 'Manufacture of office, accounting and computing machinery' (from 229 M HUF/company to 2 420 M HUF/company) industries by 2004. While the number

of organisations operating in these industries decreased, respectively, from 41 to 36, and from 26 to 21, we may obtain contrary reasons for the increase in the shareholders' equity through the examination of the elements of the shareholders' equity and the changes in the number of employees. For the 'Manufacture of basic metals' industry, the increase of the indicator with the number of employees growing by 3 902 is the result of simultaneous increases in the subscribed capital by 25 385 M HUF, the capital reserve and the accumulated profit reserve by 9 779 M HUF (*in addition to the previous year's profit/losses book value*), and the profit/losses book value by 28 634 M HUF. In the 'Manufacture of office, accounting and computing machinery' industry, the number of employees decreased by 561, and the subscribed capital by 1 996 M HUF, while the capital reserve and the accumulated profit reserve (*excluding the losses in the previous business year*) increased by 46 895 M HUF with a 2 502 M HUF decrease in the losses book value. The average subscribed capital per one organisation also showed the highest amount of increase in the 'Manufacture of basic metals' industry by 2004. It was followed by the 'Water transport' industry with a 350 M HUF/company increase with the losses book value increasing by 365 M HUF, the number of organisations by 3, and the number of employees by 239.

The average of shareholders' equity per one organisation decreased the most (*by 2 008 M HUF/company*) in the 'Manufacture of electrical machinery and apparatus n.e.c.' industry by 2004. It was preceded by 'Extraction of crude petroleum and natural gas' with 572 M HUF/company, then 'Manufacture of food products and beverages' with 482 M HUF/company. The fall of the indicator for the 'Manufacture of electrical machinery and apparatus n.e.c.' industry was the result of a rapid fall in the number of employees by 14 592 (*from 47 238 persons to 32 646 persons*), together with simultaneous decreases in the subscribed capital by 42 595 M HUF, in the capital reserve and accumulated profit reserve by 285 838 M HUF (*after filtering out the previous year's profit book value*) and the profit or loss for the year by 82 983 M HUF.

From 2003 to 2004, the average of subscribed capital per one organisation fell the most in the 'Manufacture of chemicals and chemical products' industry, namely from 2 916 M HUF/company to 1 799 M HUF/company. It was preceded by 'Post and telecommunications' with a decrease from 2 079 M HUF/company to 1 044 M HUF/company. The number of employees decreased by 4 826 in the two industries together during the subject period.

In case of the privately owned enterprises, the average of shareholders' equity per one organisation was the highest for the 'Manufacture of tobacco products' industry at 1 275 M HUF/company in 2003. (*However, this value did not reach even one sixth of the indicator value measured for the foreign owned enterprises!*) It was followed by the 'Manufacture of coke, refined petroleum products and nuclear fuel' with 679 M HUF/company and 'Manufacture of chemicals and chemical products' with 597 M HUF/company (*this value was below the tenth of the foreign owners' one even!*). The highest amounting increase was also observed in the 'Manufacture of tobacco products' industry from 2003 to 2004. The indicator value rose to 3 156 M HUF/company, which was already nearly half of that calculated for the foreign owned enterprises. The favourable change was the consequence of a growth in the employment by 520 persons, together with increases in the subscribed capital by

2 733 M HUF, and the accumulated profit reserve by 5 431 M HUF (*in addition to the previous business year's profit book value*), and a decrease in the profit/losses book value by 3 010 M HUF (*from + 528 M HUF to - 2 482 M HUF*).

In the 'Manufacture of electrical machinery and apparatus n.e.c.' industry, the improvement of the indicator by 372 M HUF/company and the increase in the number of employees by 13 636 by the year 2004, taking into account the figures of the enterprises with majority foreign ownership, suggest that changes in the majority ownership took place in the industry, and this is reflected in the analysis of the statistical classification of data. Eventually, however, one may conclude that, despite the decrease in the subscribed capital by 42 595 M HUF obtained from the consolidated data of foreign owned enterprises, only an increase by 38 489 M HUF occurs for the privately owned organisations in 2004.

In the state owned sector, the increase in the average of subscribed capital per one organisation was the highest in the 'Water transport' industry with 717 M HUF/company by the year 2004. It was followed by 'Land transport; transport via pipelines' with 566 M HUF/company. Considering this indicator, the largest fall, namely by 652 M HUF/company (*from 6 743 M HUF/company to 6 092 M HUF/company*) was produced by the 'Post and telecommunications' industry.

Foreign owned companies generated provisions altogether amounting to 148 billion HUF, while the privately and state owned enterprises 97 billion HUF and 77 billion HUF, respectively, in 2003. Thereby, the average of provisions per one organisation amounts to 6.8 billion HUF/company, 0.5 billion HUF/company and 44 billion HUF/company, which is respectively 2.86% and 27.97% decrease for the foreign and private companies, while 3.35% increase for state owned ones in 2004.

Based on the consolidated figures of the industries, the average of provisions per one organisation was the highest for the foreign owned sector in the 'Manufacture of motor vehicles, trailers and semitrailers' industry with 511 M HUF/company in 2003. The highest growth can be observed in the 'Extraction of crude petroleum and natural gas; services' industry, where the indicator value increased from 47 M HUF/company to 283 M HUF/company. For privately owned enterprises, the indicator ran the highest for the 'Manufacture of office, accounting and computing machinery' industry reaching 93 M HUF/company, however, this was also the industry producing the largest fall to 25 M HUF/company by 2004. Based on the data from 2004, the indicator calculated for the 'Manufacture of tobacco products' industry stood also remarkably high at 320 M HUF/company.

In the state owned enterprises, the indicator was the highest at 521 M HUF/company for the 'Electricity, gas, steam and hot water supply' industry, but its value decreased by 46 M HUF/company by 2004. The highest increase was produced by the 'Post and telecommunications' industry, where the indicator raised from 148 M HUF/company to 670 M HUF/company by 2004.

Out of the liabilities, 42.23% was accounted in the books of foreign owned, and 45.10% in those of privately owned organisations in 2003. The ratio of subordinated liabilities was 0.62%, 0.82% and 0.14% respectively, with minor increases for the books of both the foreign (*by 0.83%*) and private (*by 0.89%*) sectors 2004.

Out of the liabilities, those with a term beyond the given year accounted for 34.60% in the records of foreign owned companies, while they accounted for 21.60% for privately owned, and 50.62% for state owned companies in 2003. Within

the long term liabilities, the investment and development credits amounted to 970 billion HUF (34.36%) for foreign owned enterprises, while they amounted to 715 billion HUF (37.97%) and 271 billion HUF (21.08%) for the privately and state owned organisations in 2003. By 2004, the total of investment and development credits decreased by 5.65% for foreign owned companies, while increased by 20.14% and 5.80% respectively in the private and state owned sectors.

Based on the industrial figures, and in the foreign owned enterprises, the average investment and development credits per one organisation showed the highest value in the 'Post and telecommunications' industry at 2 358 M HUF/company in 2003. It was also this industry, where the indicator fell the greatest (*by 1 580 M HUF/company*) from 2003 to 2004. The most significant growth occurred in the 'Manufacture of basic metals' industry with the indicator rising from 114 M HUF/company to 263 M HUF/company. As regards the privately owned enterprises, the indicator has a peak at the 'Electricity, gas, steam and hot water supply' industry, showing 174 M HUF/company. This is also the industry, where the indicator produced the greatest growth of 175 M HUF/company in 2004. In the state owned sector, the 'Post and telecommunications' industry produced the highest value of 2 336 M HUF/company for the average investment and development credits per one organisation. This is the industry with the largest fall of 85 M HUF/company in the indicator value by 2004. The indicator increased the most for the 'Electricity, gas, steam and hot water supply' industry from 2003 to 2004, namely from 1 518 M HUF/company to 1 686 M HUF/company.

Within the liabilities, short term liabilities accounted for 32.96% for the foreign owned organisations, 43.13% for the privately owned, and 20.59% for the state owned ones in 2003. The average of short term liabilities per one organisation decreased from 239 billion HUF/company to 208 billion HUF/company for the foreign, from 34 billion HUF/company to 28 billion HUF/company for the privately, and from 679 billion HUF/company to 601 billion HUF/company for the state owned enterprises from 2003 to 2004.

More than half of the short term liabilities is accounted for by the liabilities against the suppliers and owners in the books of both foreign and privately owned organisations in 2003. These liabilities amount, respectively, to 1 785 billion HUF and 1 008 billion HUF (*altogether 53.40%*) for foreign owned enterprises, and to 2 185 billion HUF and 1 303 billion HUF (*altogether 52.02%*) for the privately owned ones. For the state owned enterprises, they amount, respectively, to 263 billion HUF and 199 billion HUF (*altogether 38.44%*). The amount of liabilities against suppliers decreased by 10.40% in the books of foreign enterprises, while increased by 16.54% and 5.25% respectively in those of privately owned and state owned ones by 2004. Filtering out the changes in the number of organisations, the decrease obtained is 283 billion HUF for foreign owned, 345 billion HUF for privately owned and 8.7 billion HUF for state owned enterprises. The liabilities against owners decreased in all of the three sectors by 2004. Filtering out the changes in the number of organisations, we obtain 116 billion HUF, 395 billion HUF and 92 billion HUF respectively for the amount of the above decrease.

Based on the industrial figures, and in the foreign owned enterprises, the average of liabilities against suppliers was the highest for the 'Manufacture of radio, television and communication equipment and apparatus' industry at 2 845 M

HUF/company in 2003. With the number of organisations and employees decreasing by 13 entities and 10 744 persons, respectively, the indicator value decreased to 2 208 M HUF/company by 2004. The average of liabilities against owners per one organisation was the highest in the 'Manufacture of office, accounting and computing machinery' industry at 2 675 M HUF/company in 2003. However, this was the industry showing the largest fall as well. The indicator value decreased to 2 649 M HUF/company with the number of organisations and employees decreasing by 5 and 561, respectively. Considering the liabilities against suppliers and owners, the 'Manufacture of coke, refined petroleum products and nuclear fuel' industry produced the highest values in the privately owned enterprises at 251 M HUF/company and 567 M HUF/company, respectively, based on the figures from the year 2003. However, while the indicator for the suppliers increased to 388 M HUF/company, that for the liabilities against owners decreased to as low as 4 M HUF/company by 2004. The highest increase in the indicator of the average of liabilities against suppliers was produced by the 'Manufacture of tobacco products' industry from 2003 to 2004 (*from 59 M HUF/company to 950 M HUF/company*). In the state owned enterprises, the 'Electricity, gas, steam and hot water supply' industry produced the highest indicator value of 1 422 M HUF/company for the liabilities against suppliers, which decreased to 1 390 M HUF/company by 2004. As regards the liabilities against owners, the highest value of 3 088 M HUF/company occurred in the 'Post and telecommunications' industry, where the indicator value – being the leader in this respect within this ownership group – decreased by 2 826 M HUF/company by 2004.

DEVELOPMENT OF THE PROCEEDS AND PRODUCTIVITY

Out of the total sales of all organisations, 42.11% was produced by foreign owned and 48.81% by privately owned organisations in 2003. With a 6.47% increase in the number of foreign owned organisations, sales decreased by 11.14% by 2004. In the case of the privately and state owned enterprises, respectively 15.31% and 1.78% increase was produced in the sales with the number of organisations increasing by 38.36% and 1.87%. Filtering out the changes in the number of organisations, we obtain decreases by 2 912 billion HUF for foreign owned, 3 399 billion HUF for privately owned and 3 billion HUF for the state owned enterprises for the year 2004.

Considering the average sales per one organisation, the decrease in the indicator is nearly eight times higher for the foreign owned organisations (*from 805 billion HUF/company to 672 billion HUF/company*), than for the privately owned ones (*from 103 billion HUF/company to 86 billion HUF/company*). In the meantime, the decrease in the indicator for the state owned businesses is merely 1.9 billion HUF/company, that is 0.09%.

Considering the total proceeds, sales make up 93.35%, and within the latter, sales of exports account for 45.85% for the foreign owned enterprises. The same ratios are 92.72% - 9.71%, and 86.09% - 3.05% for the privately owned and state owned enterprises, respectively. The average sales of exports per one organisation amounted to 393 M HUF/company in the foreign, 10 M HUF/company in the private and 65 M HUF/company in the state owned sector. The indicator fell by 26.78%, 5.01% and 27.47%, respectively, by 2004. This is probably attributable to the remarkable strengthening of Forint in 2004.

Considering industrial figures, the average sales per one organisation was the highest the 'Manufacture of tobacco products' industry in case of the foreign owned organisations, with the indicator showing 74 250 M HUF/company in 2003. It was followed by the 'Manufacture of motor vehicles, trailers and semitrailers' with 21 031 M HUF/company, then 'Manufacture of radio, television and communication equipment and apparatus' with 20 011 M HUF/company. While the former industry produced 1 101 M HUF/company growth with the number of organisations decreasing by three 3 and the number of employees by 933 by 2004, the indicator decreased by 2 578 M HUF/company for the latter with 13 less organisations and 10 744 less employees. In the 'Manufacture of motor vehicles, trailers and semitrailers' industry, the minor improvement of the indicator is somewhat overshadowed by the dramatic decrease in the average sales of export per one organisation from 31 216 M HUF/company to 20 539 M HUF/company by 2004. The second most significant decrease can be calculated for the 'Manufacture of radio, television and communication equipment and apparatus' industry, where the indicator value fell 4 229 M HUF/company by 2004. Considerable increase can be observed in the 'Manufacture of basic metals' industry, where the average sales per one organisation grew from 5 406 M HUF/company to 11 890 M HUF/company, while the indicator for exports also increased from 3 896 M HUF/company to 6 577 M HUF/company between 2003 and 2004.

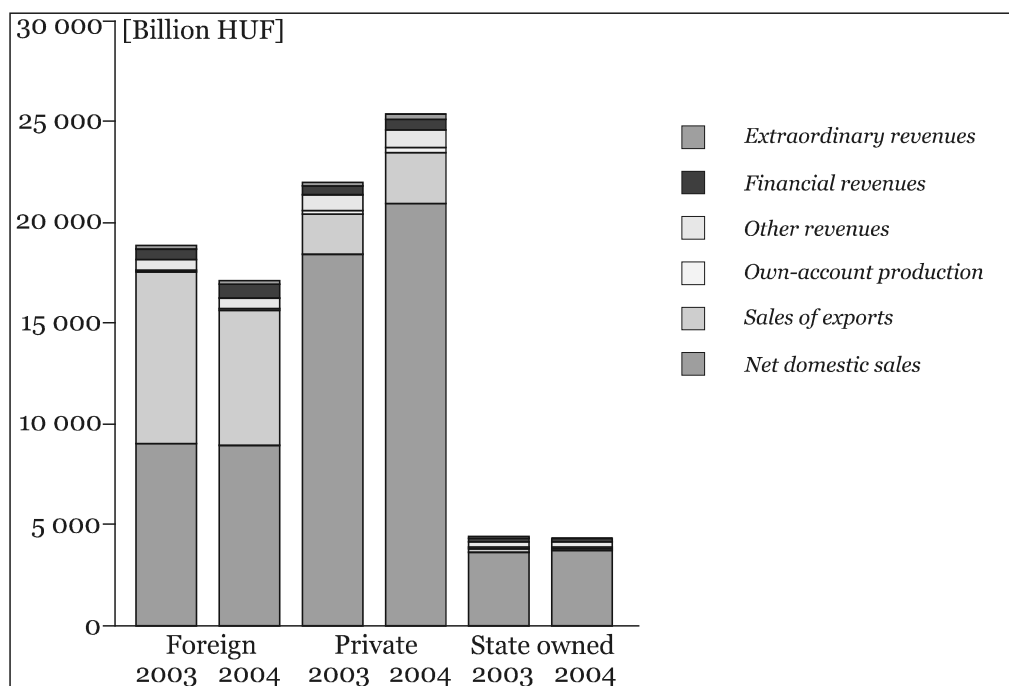


Figure 8
Development of the proceeds of the subject organisations

Based on the figures of the privately owned enterprises, the highest values are obtained in the 'Manufacture of tobacco products' industry. The average sales per one organisation increased from 4 833 M HUF/company to 39 767 M HUF/company, while the indicator for sales of exports also increased from 102 M HUF/company to 1 164 M HUF/company by 2004. In the state owned sector, the 'Electricity, gas, steam and hot water supply' industry produced the value for the indicator of average sales per one organisation, however, it decreased from 23 225 M HUF/company to 23 172 M HUF/company by 2004.

In *Figure 8*, one may hardly even see the own account production values. In 2003, it was 0.52% of the total proceeds for foreign, 0.76% for private and 2.03% for the state owned enterprises. The average value per one organisation reached 4.52 M HUF/company for foreign enterprises, which was more than five times as high as for the privately owned ones, however, it was less than tenth ($1 / 11.17$) of the value for state owned ones. Filtering out the changes in the number of organisations, the indicator shows decrease for all of the three ownership structures by 2004.

Out of the other revenues, 29.35% was accounted in the books of foreign owned organisations, 54.35% in those of privately owned ones, and 16.31% in those of the state owned ones in 2003. Within the other revenues, the directly sold intangible assets and the tangible assets together accounted for 27.39% for foreign owned, 33.55% for private and 17.08% for state owned enterprises. The average of the sum of directly sold intangible assets and tangible assets per one organisation was 5 616 th HUF/company for foreign, 1 405 th HUF/company for private and 24 073 th HUF/company for state owned enterprises. This indicator increased by 2.59% for foreign owned enterprises, while decreased by 36.71% and 16.49% for the privately owned and state owned ones, respectively. Considering the average of supports received to compensate costs (expenditure) per one organisation, we may conclude that foreign owned enterprises received nearly one and a half times more support ($1\ 133\ th\ HUF/company$) on an average in 2003, than the privately owned ones. The indicator is particularly high for the state owned organisations with 39 663 th HUF/company. It may also be observed that, for all of the three ownership structures, the indicator fell, by 14.22%, 19.11% and 43.31%, respectively.

The average of the sum of directly sold intangible assets and tangible assets per one organisation amounted to 163 M HUF/company in the 'Manufacture of tobacco products' industry, and 114 M HUF/company in the 'Manufacture of radio, television and communication equipment and apparatus' industry in 2003. In the latter industry, the indicator value was 30 M HUF/company, while in the 'Manufacture of chemicals and chemical products' industry, it was 186 M HUF/company in 2004. The average of supports received to compensate costs (expenditure) per one organisation was the highest in the 'Collection, purification and distribution of water' industry in the foreign owned sector with values of 31 M HUF/company and 35 M HUF/company respectively for 2003 and 2004. It was followed by 'Manufacture of motor vehicles, trailers and semitrailers', where the indicator was 40 M HUF/company and 20 M HUF/company respectively for 2003 and 2004. In 2003, considerable support amounting to 31 M HUF/company was granted to the companies operating in the 'Manufacture of food products and beverages' industry, which decreased to 17 M HUF/company, based on the declarations for 2004.

Based on the figures of privately owned enterprises, the 'Manufacture of motor vehicles, trailers and semitrailers' industry produced the highest value of 22 M HUF/company for the average of the sum of directly sold intangible assets and tangible assets per one organisation in 2003. In 2004, however, the 'Manufacture of tobacco products' industry showed 792 M HUF/company for the indicator. The average of supports received to compensate costs (expenditure) per one organisation was the highest in the 'Mining of coal and lignite; extraction of peat' industry at 32 M HUF/company and 8 M HUF/company respectively for 2003 and 2004.

In the state owned enterprises, the indicator for the sum of directly sold intangible assets and tangible assets was the highest in the 'Water transport' industry at 495 M HUF/company and 1 170 M HUF/company respectively for the years 2003 and 2004. Considering the indicator for the supports received to compensate costs (expenditure), 1 280 M HUF/company and 1 469 M HUF/company values are obtained respectively for 2003 and 2004 in the 'Manufacture of textiles' industry.

Financial revenues accounted for no more than 2.85% within the total proceeds in the books of foreign owned enterprises, and for 1.86% in those of private and 5.04% in those of state owned ones. In the books of foreign owners, the most part of the financial revenues (65.92%) derived from other revenues of financial investments in 2003. In the books of privately owned organisations, the same ratio was 38.73%, and for state owned ones, 21.49%. For foreign owners, the averages of dividends received (due), and the interest and capital gains on financial investments per one organisation increased by 179.22% (*from 2 644 th HUF/company to 7 383 th HUF/company*), and by 5.01% (*from 5 266 th HUF/company to 5 530 th HUF/company*) by 2004.

On the bases of the industrial figures, the indicator of the average of financial revenues per one organisation showed a peak in the foreign owned organisations in the 'Manufacture of radio, television and communication equipment and apparatus' industry with 857 M HUF/company in 2003. This indicator value may be attributable to the high percentage (94.83%) of the other revenues of financial investments, which may be related, in turn, with the accounting of the capital gains from the sales of exports. Considering the figures of the privately owned enterprises, the indicator was the highest in the 'Manufacture of chemicals and chemical products' industry at 69 M HUF/company in 2003, and 67 M HUF/company in 2004. In respect of the percentage represented by the other revenues of financial investments (85.31% and 85.61%), and the development of the sales of exports (339 M HUF/company and 334 M HUF/company), the tendency of the indicator may originate in the reasons assumed above. In the state owned sector, the indicator runs the highest in the 'Post and telecommunications' industry, it reaches 6 687 M HUF/company and 4 357 M HUF/company respectively in 2003 and 2004. However, the development of the indicator originates in other reasons, than described above. 76.77% and 80.11% of the financial revenues were accounted for by dividends received (due), and capital gains on the sale of shares in 2003 and 2004 respectively.

Out of the extraordinary revenues, 40.58% was recorded in the income statements of foreign, and 46.93% in those of privately owned organisations in 2003. For the foreign owned enterprises, only 17.88% of the extraordinary revenues originated from the value of in-kind contributions, as determined by the articles of association, or supports granted without repayment obligation, and not to compensate costs,

expenditure. The average of supports received per one organisation, being 1 216 th HUF/company, was still nearly six times as high as for the privately owned organisations. The figures adjusted with the changes in the number of organisations in 2004 show a slight decrease (4.60%) for the foreign owned companies, while considerable decrease of 42.51% (from 216 th HUF/company to 124 th HUF/company) for the privately owned ones.

State owned enterprises produced outstanding results in respect of the average of supports (5 915 th HUF/company) and in-kind contribution (8 634 th HUF/company) per one organisation in 2003. As regards supports, the indicator even improved by 29.14%, as compared to 2003.

Considering the figures of the industries in the foreign owned enterprises, the average of extraordinary revenues per one organisation was the highest for the 'Manufacture of motor vehicles, trailers and semitrailers' industry at 135 M HUF/company in 2003, 87.92% whereof originated from supports granted without repayment obligation, and not to compensate costs, expenditure. In 2004, the indicator was outstanding in the 'Manufacture of basic metals' industry showing 142 M HUF/company. In the case of privately owned enterprises, the companies belonging to the 'Manufacture of other transport equipment' industry received the most support on an average in the subject period (4 460 M HUF/company and 959 M HUF/company). For the state owned enterprises, the average of extraordinary revenues per one organisation was the highest in the 'Post and telecommunications' industry in 2003. Within the indicator value of 585 M HUF/company, 83.41% originated from the value of in-kind contributions, as laid down in the articles of association. The highest total support on an average was granted to the 'Land transport; transport via pipelines' industry enumerating 100 and 89 companies in 2003 and 2004 respectively. The resulting indicator showed 49 M HUF/company and 62 M HUF/company respectively in the subject period.

As regards productivity, the average sales per one employee amounted to 36 493 th HUF/person for foreign, 15 936 th HUF/person for private (43.67% of the value for foreign enterprises), and 13 401 th HUF/person for state owned companies in 2003. By 2004, the indicator decreased by 0.25% for foreign owned enterprises, while it increased by 4.04% and 7.19% for the private and state owned ones respectively. One of the reasons of the change in the indicator is the change in the number of employees. In the case of enterprises with foreign ownership, 10.92% (52 655 persons) less employees were hired in 2004, despite the increase in the number of organisations. For the privately owned organisations, the number of employees increased only by 10.83% (138 672 persons) with the number of organisations increasing by 38.36%. In the case of the state owned enterprises, the number of organisations increased by 1.87%, however, the number of employees even decreased by 5.05% (14 300 persons). Filtering out the changes in the number of employees, we obtain an indicator showing 4 067 th HUF/person decrease for the foreign owned enterprises, the increases of 2 439 th HUF/person and 238 th HUF/person respectively for the privately and state owned ones.

The average sales of exports per one employee was 17 828 th HUF/person for the foreign, 1 547 th HUF/person for the privately and 409 th HUF/person for the state owned enterprises. The indicator fell for the foreign and state owned businesses by 2004. The changes even grow filtering out the impact of the variation of the number

of employees. The decrease becomes 3 930 th HUF/person for foreign and 107 th HUF/person for state owned enterprises, while privately owned businesses show 486 th HUF/person growth.

Taking into account the development of productivity broken down to the industries, one may conclude that the average of sales per one employee was the highest for the enterprises operating in industry 50, 'Sale, maintenance and repair of motor-vehicles, etc.; retail sale of automotive fuel' in 2003. Figure 9 clearly shows that, while the indicator stood at 221 224 th HUF/person for foreign owned enterprises, it showed 29 498 th HUF/person for the privately, and 9 335 th HUF/person for the state owned ones.

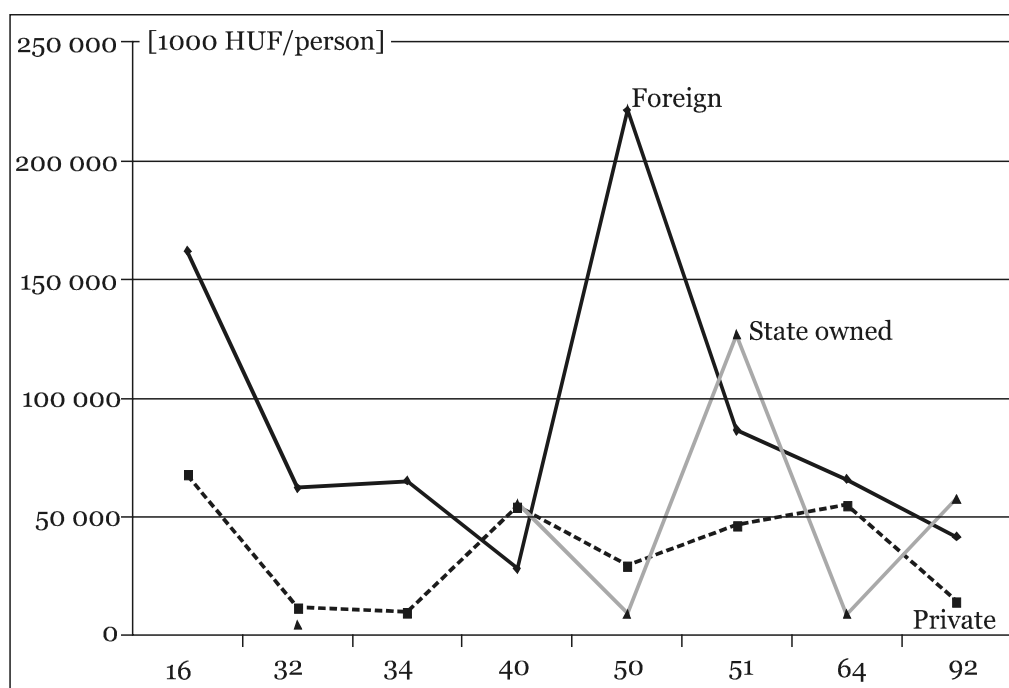


Figure 9
The most productive eight industries in 2003

For industry 40, 'Electricity, gas, steam and hot water supply', industry 51 'Wholesale trade and commission trade, except of motor-vehicles, etc.' and industry 92, 'Recreational, cultural and sporting activities', the indicator showed the highest values, when calculated from the data of state owned enterprises in 2003. For the privately owned enterprises, there was only one industry (40), where the calculated value was higher, than for the foreign owned ones. While the indicators show increasing trends for all industries in the foreign owned organisations – for example, industry 32, 'Manufacture of radio, television and communication equipment and apparatus' with 8.30%, industry 34, 'Manufacture of motor vehicles, trailers and semitrailers' with 5.10%, industry 40 with 60.64%, industry 50 with 14.93%, and

industry 64, 'Post and telecommunications' with 7.89% -, private and state owned companies show more heterogeneous image. The improvement of the indicator values was the result of increases in the sales, and simultaneous decreases in the number of employees – except industry 51, where the number of employees increased by 4.10%. In the case of the privately owned enterprises, the indicator increased by 352.06% for industry 40 by 2004. The outstanding growth of the indicator resulted from a 20.57% increase in the number of employees, and a 445.06% increase in the sales. In the state owned sector, with the exception of the 13.95% decrease in industry 92, the indicator improved for all of the remaining ones by 2004.

Considering the average sales of exports per one employee, one may note that the top ten include one privately owned organisation. The 'Manufacture of office, accounting and computing machinery' industry with the third best value of 25 916 th HUF/person in 2003 even produced an increase to 65 821 th HUF/person by 2004. The top two indicator values were produced by the industries 34 and 32 in foreign owned sector with 96 665 th HUF/person and 58 074 th HUF/person respectively in 2003. By 2004, however, the indicator fell in both industries; by 34.29% in industry 34, and by 3.78% in industry 32.

DEVELOPMENT OF COSTS AND PROFITABILITY

Despite of the distribution of proceeds, whereby 49.06% was accounted in the books of foreign, and 42.86% in those of privately owned enterprises in 2003, for the costs, the same ratios were 41.67% and 48.31%, respectively. Out of the costs recorded, for foreign organisations 79.23%, and for private ones 80.35% is made up from material costs.

For foreign owned enterprises, 39.36% of the material costs was accounted for by material costs of production, and 38.04% by cost of goods sold, while the same ratios were 22.87% - 49.13% for privately, and 19.45% - 47.90% for state owned ones. The average material cost of production per one organisation was 19 640 th HUF/company for the privately owned businesses, while it reached more than thirteen times as high as for the foreign owned companies. Considering the cost of goods sold, the above ratio is nearly six times higher. For state owned organisations, the indicator of material cost of production was 307 928 th HUF/company, and the cost of goods sold was 758 420 th HUF/company. Filtering out the change in the number of organisations from 2003 to 2004, we obtain that, with the exception of material inputs and cost of goods sold for the state owned companies, the indicator values decreased in all of the three ownership structures. Considering the material cost of production, this decrease was 684 th HUF/company for foreign, 680 th HUF/company for private, and 48 th HUF/company for the state owned enterprises. The average of cost of goods sold per one organisation decreased by 416 th HUF/company for the foreign, and 1 589 th HUF/company for the privately owned organisations, while the state owned companies produced a 30 th HUF/company increase.

The examination of the industries based on the average material cost of production per one organisation shows that the material demand ran the highest in the 'Manufacture of motor vehicles, trailers and semitrailers' with 15 213 M HUF/company in 2003 in the foreign owned organisations. It was followed by the 'Manufacture of radio, television and communication equipment and apparatus'

industry with 14 940 M HUF/company. However, while the indicator increased to 15 742 M HUF/company in the former industry, it decreased to 13 573 M HUF/company in the latter by 2004. In case of the privately owned enterprises, the indicator stood the highest for the 'Manufacture of coke, refined petroleum products and nuclear fuel' industry at 1 434 M HUF/company. The indicator of this industry further increased to 1 803 M HUF/company by 2004. In the state owned sector, the 'Electricity, gas, steam and hot water supply' industry produced the highest indicator value of 2 952 M HUF/company, which decreased to 2 553 M HUF/company by 2004.

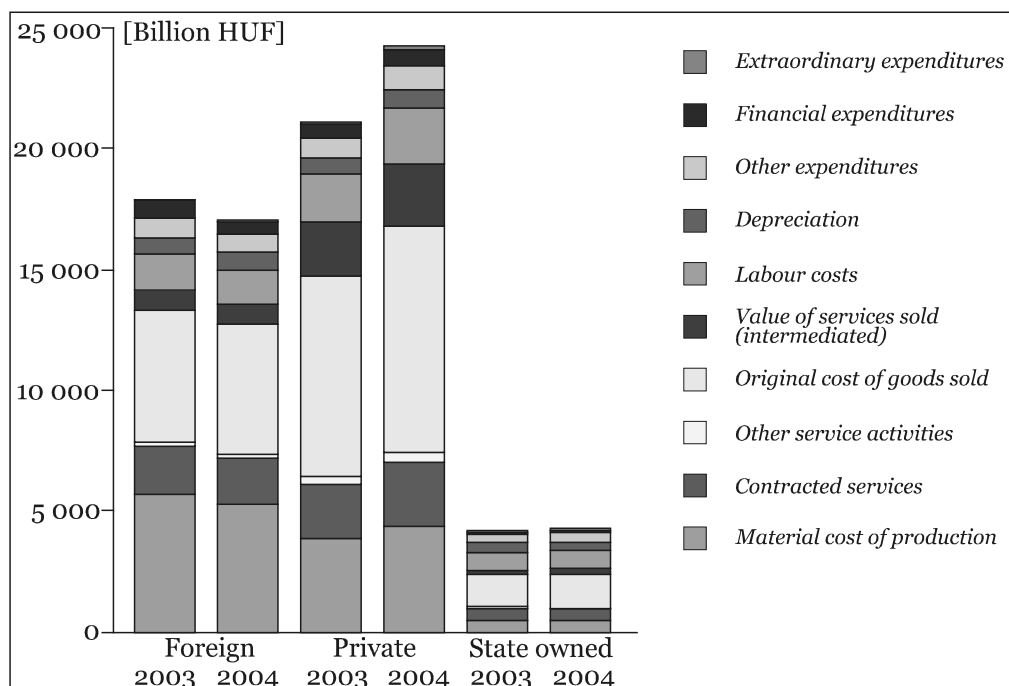


Figure 10
Development of the costs of the subject organisations

Out of the total of labour costs, 35.09% was recorded in the books of foreign owned companies, while 47.47% in those of privately owned, and 17.44% in those of state owned ones. The average of the total wages per one employee was 2 021 th HUF/person for foreign, 1 037 th HUF/person for private and 1 671 th HUF/person for state owned enterprises in 2003. By filtering out the changes in the number of employees, we obtain a 6.71% decrease for the foreign owned enterprises, while 17.72% and 5.65% increases respectively for the privately and state owned ones.

As regards the average of labour costs per one employee, as broken down to industries, in the foreign owned enterprises 'Research and development' produced the highest value of 6 926 th HUF/person in 2003. It was followed by 'Post and telecommunications' with 6 201 th HUF/person, then 'Computer and related activities'

with 6 076 th HUF/person. Nevertheless, while the latter two industries showed 205 th HUF/persons and 220 th HUF/persons growth respectively by 2004, 'Research and development' produced a decrease by 749 th HUF/persons. In case of the privately owned enterprises, the 'Manufacture of coke, refined petroleum products and nuclear fuel' industry had the highest indicator value of 5 569 th HUF/person, and it was followed by 'Post and telecommunications' with 5 414 th HUF/person, then 'Extraction of crude petroleum and natural gas' with 4 207 th HUF/person. By 2004, the 'Manufacture of tobacco products' industry took over the first place with 9 186 th HUF/person, while 'Manufacture of coke, refined petroleum products and nuclear fuel' was the runner-up, despite a 58.71% increase in its indicator value. In the state owned sector, 'Computer and related activities' produced the highest value of 5 751 th HUF/person in 2003. This value is only 5.35% less, than the result obtained from the data of foreign owned enterprises.

Depreciation had a 3.69% share in the total material costs for foreign, 3.03% for private, and 7.82% for state owned enterprises in 2003, based on the companies' consolidated figures. The average depreciation per one organisation was 30 850 th HUF/company for the foreign owned enterprises, less than one tenth thereof for the privately owned ones, and 194 381 th HUF/company for the state owned organisations. While the indicator value increased by 2.12% for foreign owned enterprises, it decreased by 16.06% and 0.61% for the privately and state owned ones.

Based on industrial figures, the average depreciation per one organisation reached the highest, that is 1 189 M HUF/company in foreign owned enterprises in the 'Post and telecommunications' industry in 2003. The runner-up was 'Manufacture of tobacco products' with 1 086 M HUF/company, and the third place was taken by 'Manufacture of motor vehicles, trailers and semitrailers' with 1 004 M HUF/company. In case of the privately owned companies, the highest value of 104 M HUF/company was produced by the 'Manufacture of coke, refined petroleum products and nuclear fuel' industry in 2003. It was followed by 'Manufacture of tobacco products' with 100 M HUF/company, which produced an outstanding growth (*431 M HUF/company*) by 2004 in indicators of all industries. In case of the state owned organisations, the 'Post and telecommunications' had the highest value of 3 566 M HUF/company, which rose to 3 889 M HUF/company by 2004.

Out of the other expenditures, 42.62% was accounted by foreign enterprises, and 40.74% and 16.64% by privately and state owned ones. The average of other expenditures per one organisation was 40 217 th HUF/company for foreign, 4 240 th HUF/company for private, and 194 171 th HUF/company for state owned companies. The indicator showed decreases by 6 639 th HUF/company and 537 th HUF/company respectively for the foreign and privately owned enterprises, but increased by 12 358 th HUF/company for the state owned ones by 2004. Out of the other expenditures accounted by foreign owned enterprises, 33.46% was made up from taxes, duties, contributions declared and payable, while 11.43% from the book value of directly sold intangible and tangible assets in 2003. For the privately and state owned enterprises, these ratios were 21.38% - 23.14%, and 16.14% - 7.88% respectively. In 2003, the average of taxes, duties, contributions declared and payable per one organisation amounted to 13 455 th HUF/company for foreign, 907 th HUF/company for private, and 31 340 th HUF/company for state owned organisations. While the indicator decreased by 54.98% for foreign companies, it increased

by 33.08% and 47.01% for the private and state owned ones. Taking into account the industries' figures, the average of taxes, duties, contributions declared and payable per one organisation was the highest in foreign owned organisations in the 'Manufacture of tobacco products' industry amounting to 50 212 M HUF/company in 2003. In case of the privately owned enterprises operating in the 'Manufacture of tobacco products' industry, the indicator increased from 148 M HUF/company to 30 718 M HUF/company by 2004. In the state owned sector, the 'Recreational, cultural and sporting activities' industry produced the highest indicator value of 260 M HUF/company in 2003. It was followed by 'Post and telecommunications' with 225 M HUF/company, where the indicator increased to 386 M HUF/company by 2004.

On the bases of the consolidated figures of both the foreign and the private sectors, financial expenditures outran financial revenues. Thereby, the profit/losses on financial transactions amounted to 160 billion HUF and 113 billion HUF losses for the foreign and private enterprises, while the consolidated figures of the state owned sector showed 92 billion HUF profit for 2003. Out of the financial expenditures, 51.65% was accounted by foreign, 38.68% by private and 9.66% by state owned enterprises. The average financial expenditures per one organisation decreased from 31 915 th HUF/company to 22 292 th HUF/company in the foreign owned enterprises, from 2 636 th HUF/company to 2 459 th HUF/company in private, and from 73 828 th HUF/company to 69 084 th HUF/company in state owned ones between 2003 and 2004. In case of the foreign owned organisations, the indicator of average financial expenditures per one organisation was the highest for the 'Manufacture of radio, television and communication equipment and apparatus' industry (750 M HUF/company) in 2003. The runner-up was 'Post and telecommunications' with 595 M HUF/company, and the third place was taken by the 'Manufacture of basic metals' industry with 397 M HUF/company. The indicator decreased in the former two industries (by 445 M HUF/company and 250 M HUF/company, respectively), while it increased in the third (by 232 M HUF/company), whereby the winner slipped down to the third place, although the first three places were taken by the same three industries in 2004 too. In case of the privately owned businesses, the 'Electricity, gas, steam and hot water supply' industry produced the highest indicator value of 82 M HUF/company in 2003. For 2004, however, higher values were produced by both the 'Manufacture of tobacco products' (103 M HUF/company) and the 'Manufacture of electrical machinery and apparatus n.e.c.' (101 M HUF/company) industries. In the state owned companies, the indicator ran the highest for the 'Post and telecommunications' industry showing 2 180 M HUF/company in 2003 and 2 226 M HUF/company in 2004.

The extraordinary profit/losses have positive value in both years for all of the three ownership groups. Out of the extraordinary profit/losses, 61.71% was accounted in the books of foreign, and 29.66% in those of privately owned enterprises in 2003. The distribution of extraordinary expenditures, however, shows a converse image. The foreign owned organisations accounted 23.40% of the extraordinary expenditures, while the privately owned ones recorded 60.97% thereof. The average The average of extraordinary expenditures per one organisation was 2 483 th HUF/company for foreign, 713 th HUF/company for private and 20 503 th HUF/company for state owned organisations in 2003. While the indicator increased

in the case of foreign enterprises by 18.26% by 2004, it decreased for both the privately and state owned companies, by 37.57% and 23.40%, respectively. Out of the average extraordinary expenditures per one organisation, the recorded value of in-kind contributions to business partnerships amounted to 105 th HUF/company for foreign, 78 th HUF/company for private and 7 555 th HUF/company for state owned companies. The average of supports granted without repayment obligation, and not to compensate costs, expenditure per one organisation amounted to 307 th HUF/company for foreign, 158 th HUF/company for private and 4 314 th HUF/company for state owned enterprises. While the indicator for the book value of in-kind contributions increased by 59.89% and 0.31% for the foreign and privately owned enterprises respectively, it decreased for the state owned sector by 80.89% by 2004. The indicator for supports granted increased by 0.96% for the foreign and 30.40% for the state owned enterprises, it decreased for the privately owned ones by 59.84%.

The indicator of the average of extraordinary expenditures per one organisation was the highest, namely 57 M HUF/company at the foreign owned enterprises in the 'Manufacture of chemicals and chemical products' industry in 2003. In 2004, the first place was taken over by the 'Manufacture of basic metals' industry with a value of 123 M HUF/company. The most support without repayment obligation, and not to compensate costs, expenditure was granted by the 'Manufacture of tobacco products' in both the foreign and the privately owned enterprises during the subject period. In case of the state owned enterprises, the average of extraordinary expenditures per one organisation was the highest in the 'Post and telecommunications' industry in both 2003 and 2004. In 2003, 62.23% of the expenditures comprised of contribution in kind, and an additional 15.77% was accounted due to supports.

During 2003, out of the total profit/losses before taxation of the companies conducting double-entry bookkeeping, 45.66% was accounted in the books of foreign owned, 44.22% in those of privately owned, and 10.11% in those of state owned companies. This profit/losses category showed 5.25% and 30.59% growth in the foreign and private organisations respectively, but 57.40% decrease in the state owned ones. The average profit/losses before taxation per one organisation was 39 126 th HUF/company for foreign, 4 179 th HUF/company for private and 107 157 th HUF/company for state owned enterprises. The indicator value decreased in all of the three ownership groups by 2004, respectively by 1.14%, 5.61% and 58.18%.

The average profit/losses before taxation per one organisation ran the highest in the foreign owned companies in the 'Manufacture of tobacco products' industry, being 4 589 M HUF/company in 2003. It was followed by 'Manufacture of motor vehicles, trailers and semitrailers' with 1 977 M HUF/company, then 'Manufacture of electrical machinery and apparatus n.e.c.' with 752 M HUF/company. The indicator value decreased in both industries to 1 661 M HUF/company and 314 M HUF/company respectively, based of the figures of year 2004. In case of the privately owned enterprises, also the 'Manufacture of tobacco products' produced the highest indicator value of 177 M HUF/company in 2003, however, it turned into 827 M HUF/company loss by 2004. In the state owned sector, the 'Post and telecommunications' industry gave the highest indicator value of 5 698 M HUF/company, which decreased to 2 136 M HUF/company by 2004.

The total profit tax liability of all companies with double-entry bookkeeping amounted, based on their consolidated figures, to 294.6 billion HUF in 2003, whereof 38.42%, 49.21% and 12.37% was included in the tax declarations of respectively the foreign, the private and the state owned companies. The total profit tax liability of all enterprises amounted to 268.3 billion HUF, that is decreased by 8.93% by 2004. This decrease gets even higher after filtering out the changes in the number of organisations. Thereby we obtain decreases of 19.7 billion HUF for the foreign owned organisations, and 41.45 billion HUF and 11.39 billion HUF for the privately and state owned ones, respectively.

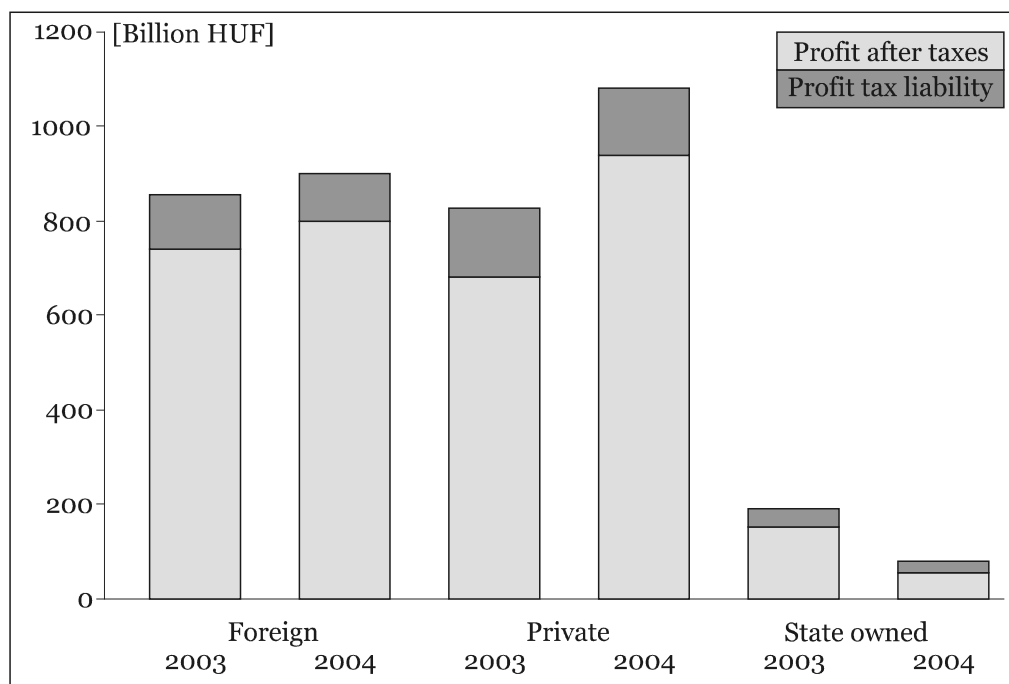


Figure 11

Development of the profit/losses before taxation in the subject organisations

In case of foreign owned enterprises, the most corporate tax liability occurred in the books of companies operating in the 'Manufacture of tobacco products' industry in 2003, amounting altogether to 696 M HUF/company. With the decrease in the number of organisations, however, this value showed significant decrease (*by 20 M HUF/company*) by 2004. The runner-up in 2003, being 'Manufacture of motor vehicles, trailers and semitrailers', took over the first place in 2004 with 102 M HUF/company for each year. In the privately owned enterprises, the ones belonging to the 'Manufacture of tobacco products' industry had the highest tax liability 28 M HUF/company in 2003. By 2004, however, they were left behind due to losses, and the first place was taken over by the 'Electricity, gas, steam and hot water supply' industry with 14 982 M HUF/company. In the state owned organisations, the ones

operating in the 'Post and telecommunications' industry produced the highest indicator value of 454 M HUF/company in 2003, which decreased to 11 M HUF/company by 2004.

Out of the total of dividends and other withdrawals, 30.94% (270 billion HUF) was approved for the owners of foreign enterprises, 42.84% (373 billion HUF) for those of private ones, and 26.22% (228 billion HUF) for those in the state owned sector in 2003. The average dividends and other withdrawals per one organisation amounted to 12 333 th HUF/company for foreign, 1 884 th HUF/company for private, and 129 291 th HUF/company for state owned enterprises. The indicator increased by 30.77% for the foreign enterprises, but decreased by 7.20% and 24.81% for the private and state owned ones during the subject period.

The average dividends and other withdrawals per one organisation reached the highest in the 'Manufacture of basic metals' industry with 511 M HUF/company in the foreign owned organisations in 2003. In 2004, however, it showed 823 M HUF/company for the 'Manufacture of motor vehicles, trailers and semitrailers' industry.

In the privately owned enterprises, the indicator showed 170 M HUF/company for the ones operating in the 'Extraction of crude petroleum and natural gas' industry, although fell to 47 M HUF/company by 2004. Given this fall, the runner-up of 2003, namely the 'Post and telecommunications' industry took over the first place with 68 M HUF/company. In the state owned sector, the indicator ran the highest for the 'Post and telecommunications' industry with 5 008 M HUF/company in 2003. This value decreased to 3 462 M HUF/company by 2004. In the 'Manufacture of coke, refined petroleum products and nuclear fuel' industry, 16 998 M HUF fell on a single company on an average in 2004.

Considering profitability through the study of the indicator of profit/losses before taxation on sales, we obtain 4.86% for the foreign, 4.06% for the private, and 4.99% for the state owned companies for 2003. The indicator value increased by 18.46% and 13.25% for the foreign and privately owned enterprises, while decreased by 58.14% for the state owned ones by 2004.

Considering the profit/losses before taxation on sales broken down to industries, one may conclude that, in 2003, the indicator ran the highest at 59.62% for the enterprises operating in industry 5, 'Fishing'. In this ownership group, 6 organisations operated in the industry, which produced 49 M HUF sales, and 29 M HUF profit/losses before taxation in 2003. Considering the consolidated figures, we obtain 10.69% for the 130 privately owned enterprises, and - 3.91% for the 6 state owned ones. The indicator fell to 22.07%, 1.92 % and - 21.71% respectively by 2004.

The next three values in the row originate from the figures of state owned enterprises: 71 'Renting of machinery and equipment without operator' with 57.20%, 61 'Water transport' with 37.11% and 64 'Post and telecommunications' with 30.18%. By 2004, the indicator decreased to 26.69%, - 18.43% and 10.04% respectively. The order after the foregoing industries was as follows: 90 'Sewage and refuse disposal, sanitation and similar activities', 26 'Manufacture of other non-metallic mineral products', 24 'Manufacture of chemicals and chemical products', 14 'Other mining and quarrying' and 80 'Education'.

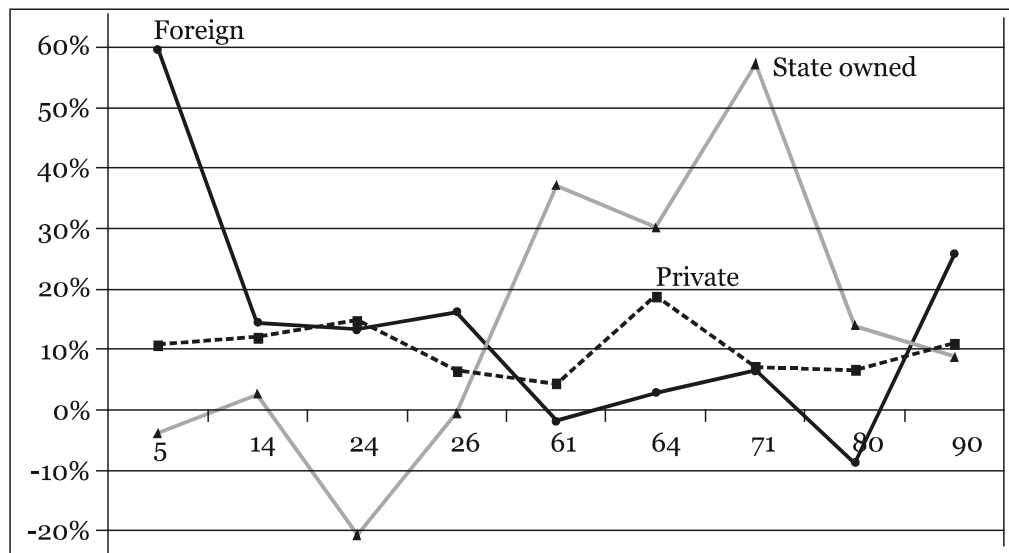


Figure 12
The nine most profitable industries in 2003

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