

## **Small Enterprises in Hungary and Joining the European Union**

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### ***Abstract***

To put the great number of Hungarian small and medium-sized enterprises (SMEs) on the European market also in the future (which have existed for two and a half decades on it), quite many Hungarian rules had to be reformed before joining the EU. This work is continuing alongside with a constant further reform of the EU-rules. The gap is big, sometimes it is impossible to leap it over with one step. Moreover, the majority of the SMEs themselves are not even familiar with either the rules or the habits of the Union, so, the process is dragging on for quite a long time and has not been able to demonstrate many results yet. (See the added value for those employed in SMEs compared to that of the EU-enterprises.) In spite of this, there have been Hungarian enterprises successful even in Europe, although their majority are among the bigger ones of our SMEs.

### ***Introduction***

It was doubtless that the vast majority of Hungarians and their enterprises could not see any other way out for development and stepping further than to join the European Union. This practically makes the following possible for any enterprise and private individual: legalized activities in the EU-market, direct challenge in a big international market, easier purchase, acquisition of capital, it also makes introduction to European consumers easier and it makes building relationships with entrepreneurs working in the EU-market more natural – all together: it facilitates Hungary's 'building back' into Europe.

Hungary submitted its application for joining in 1994, the Council of Europe had appreciated the possibility that the countries in the former Eastern-block wishing and able to join shall join as a long-term goal in June 1993, and issued its opinion of consent in 1997. Negotiations about joining were concluded in December 2000. Referendum surveying the inclination whether to join the EU was called for 12 April 2003. 47 % of the inhabitants with a right to vote participated in this and 83.76 % of them voted for "yes". The joining itself took place on 1 May 2004.

### ***Preparations in general***

Already in the mid 90-ies, the Hungarian state began to harmonize its legislation with EU policies, with rules which mostly left subsidiary but most-widely applied within the individual countries of the EU, with regulations and laws according to the proposals. Just to mention a few fields concerning this: harmonization included in the rules began on the fields of environment, customs policy, agricultural supports, obligatory technical requirements and standards concerning individual products, employment of foreigners, making the law of accounting clearer, determining the framework of the price fixing, consumer protection, quality assurance and quality control, exported and imported products corresponding concessions, united protection of market, some regulations concerning distribution within member-states, performing requirements concerning origin, transit agreements, liberalization of currency, fight against money laundering, settling of self-employed businesses in other member-states, acceptance of qualifications, duties. Similarly to these, regulations better ad-

justed to EU-regulations were passed about company court registrations verifying registrations of companies, intellectual proprietary rights, protections concerning industry- and design-protections, public procurement, plant-permission, permissions from authorities, running firms according to EU-regulations.

Quite a number of indirect measures were taken, too. However, it is difficult to tell whether the main object of these was to make joining the EU easier and develop our competitiveness generally or to help our fitting into the global world. This is, for example, how, already in the summer of 1998, the Company Act and the closely connected laws about company registration, company publicity and court proceedings of companies were modified, which raised core capitals of body corporate enterprises to a reasonable level, made the introduction of the so called 'one-window' system also in cases of companies easier and introduced the concept of the legal form of European Economic Syndicates. Compulsory application of the food-safety HACCP system related to food-trading and catering businesses (units) was codified in Hungary also in 2003. It was made possible that the decree about supply of data subject to fees and the decree about e-administration services could be issued in 2000, and more and more ministries and (governmental) offices made the rules and regulations issued or handled by them accessible on their websites for those looking up the given homepages.

1 May 2004 getting closer, further rules and regulations were modified (or the same rules and regulations were further-modified). For example, rules and regulations concerning mergers and split-ups of joint-stock companies, shares and share transfers, foundation documents, non-financial contributions, dividend advance payment, were changed from 1 January 2004, laws concerning Hungarian commercial representations, branch- and plant-locations of companies with foreign headquarters and investments of foreigners in Hungary were modified from the same date. The European joint-stock company's legal form (making it possible to move the headquarters of joint-stock companies from one country to another) was included in the Company Act. Also statistic recordings were adjusted to the standards of the Union. Data collection system was modified to the OSAP (implemented in 2005).

Before joining, EU-Info offices were established, making it possible for anyone to enquire about the issues they are interested in either personally or with the help of a PC. However, the employees of these offices were similarly uninformed than the 'villagers' and answers for detailed questions proved useless for entrepreneurs who were not familiar with searching the Internet, speaking no or little English. (Then, such gossips spread that cucumbers with not appropriate curves, eggs with no appropriate size, etc. will not be allowed to be sold in Hungary, either.) It needs to be mentioned that the EU-info offices increased the number of organizations and apparatus helping enterprises but working with low efficiency they decreased the resources meant to support the joining.

The modification of Hungarian tax system was – and still is, however, due to somewhat other reasons - one of the biggest problems of adjustment. Although the majority of tax-rules and regulations are determined by each member country individually, there are EU policies concerning indirect taxation. The use of discriminating taxes are forbidden – that is why we had to cease favorable taxes motivating Hungarian investments of foreign companies-, it is forbidden to use consumer-, turnover- and other similar taxes protecting national products.) The limits of the size of company taxes are still a matter of consideration not only in Hungary but throughout the EU. Concerning the added value tax, approximation was agreed on, the value in the individual member states is between 15 and 25 %. In Hungary there were VAT-s free of charge, 0%, 5%, 15%, 20% and 25%. Reduction and contraction of these is in progress.

### *Small enterprises and preparations to joining the EU*

Large numbers of Hungarian programs were aiming specially to help small enterprises for joining. For example, the Act of Small Enterprises which created the Small and Medium-sized Business' Objectives (central budget resource) was already passed in 1999 and implemented on 1 January 2000. In 2002 a government decree was passed about the Széchenyi Enterprise Developing Program, which aimed at further developing the growing SMEs and spreading them in the national and foreign market, to provide economic-policy support for stagnating but viable SMEs in the united EU-market, to help underdeveloped SMEs or SMEs run in underdeveloped regions in creating equal chances. From 2003 EVA was introduced. EVA applies simplified taxation methods for the smallest enterprises; however, it is too favorable in its content. In Autumn 2003 a four-stage credit-program (Micro-credit, Széchenyi-Card, Midi-credit, Europe-credit) to let SMEs get to resources, the "Chain-bridge" Factoring Program to ease the liquidity state of SMEs, some national guarantee-constructions, incorporated companies of risks, the Supplying Investor Joint-stock Company to develop the role of SMEs as suppliers were introduced. The government announced supports which were not to be paid back and could be received by applications from the EU-pre-financing funds. A government decree which aimed at strengthening the industry-law protective activities of SMEs was passed in addition to the range of governmental help to small enterprises.

Already a year before joining, 'the EU goes to our homes' program started. Institutions helping enterprises spread it throughout the country and held lectures, answered questions concerning joining asked by entrepreneurs and employees in each bigger town and settlement-center. (On these meetings, it created big problems that entrepreneurs and private individuals were not aware which of the countless policies concerned them and which ones did not, for which ones are the rules are obligatory, which are proposals only, and among the latter ones, which are recommended to follow in order to strengthen the competitiveness of the enterprise. However, many of the questions could not be answered by the appointed people, either, because they should have known not only all the up-to-date rules and regulations but the questioning enterprises themselves with their own problems. So, in quite a number of cases, the briefings were concluded with generalities and dullness.)

It should be mentioned here that new Hungarian organizations supporting enterprises joined the earlier Hungarian ones to help from one side or another in Hungarian enterprises joining the union. That is how the Hungarian Bank of Development - which did not even want to hear about any kind of support for small enterprises in the late 80-ies, early 90-ies - successfully lobbied for a separate apparatus in the bank working with advancing the financing of small enterprises first, then – nowadays – its being the centralized bank of SMEs.

Remained the "old" supporting institutes as the Hungarian Enterprise Developing Fund (MVA in Hungarian) working from 1990 and the local enterprise centers connected to it. These mostly worked with micro-credits – until they had funds that could be laid out. It was the same case with the business federations (VOSZ, KIOSZ, KISOSZ, SME Development Council, SEED, etc.) In the 90-es came the new ones: the Credit-guarantee Fund existing from 2002, meaning really big help to all kinds of credit-taking of Hungarian SMEs, the Agricultural Enterprise credit-guarantee Foundation, the Hungarian Export-Import Bank working between 1994 and 2004 and its 'twin'-institution, the Hungarian Export-Credit-Insurance Joint-stock Company and various voluntary guarantee-co-operatives. (which did not pursue any activity taking guarantee). In 1999 the Hungarian state created the Széchenyi Tourism Developing Program, an office for preparing, writing and handling

the SMEs applications, and to overtake the coordination-role of the MVA. Outside the Hungarian state created institutions were created some others created by private individuals and enterprises. Some for providing the Hungarian SMEs with risk capital, an other – under the name KA-VOSZ - to transmit financial services for them. Besides this, an Office Examining Supports within the Ministry of Finance was created. Even after cancelled as obligatory, the Hungarian Chamber of Commerce and Industry, the Chamber of Commerce and Industry of Budapest and the Hungarian Chamber of Agriculture took their part on the field of helping enterprises. (The interesting point of Hungarian chamber system is that obligatory chamber-membership was introduced in 1994 and ceased in 1998. Since then, they are public bodies including the 60% of enterprises.) The newest modification of the chamber-membership in 2003 gives more public tasks to the economic chambers from 1 January 2004. These tasks are concerning joining to the EU and making business turnover safer, they have a word in economic development strategies, it has the right to organize master-training and examining further on, as well, and to apply the ethical codex for members outside the chamber, too. The Chamber creates the circumstances of the Permanent Chosen Court's tasks and its task is to certify documents.

Besides all of this, the Paris-based International Chamber of Commerce (ICC) created its Hungarian representation and miscellaneous chambers connecting countries' economies required a bigger space than so far. The Office of National Development being the background-institute of the National Plan of Developing created separate institutions for the appropriate reception of European resources. Separate institutions were created for managing Hungarian supply program or managing skills of innovations – and so on. The problem with these institutions was (and is) not their large number but that all were keeping asking for – possibly exclusive - state commission (and money to it), and meanwhile, very small number of entrepreneurs (and half of them in vain) turned to them for they had lack of information, too big apparatus, less renown or not too good reputation. (According to a survey with two thousand people, only 33% of the entrepreneurs gave a try at any of these, and only 57% of them received worthy help.)

### ***The second stage of adjustment***

However, the maybe even too generous but undoubtedly expedient Hungarian rules, regulations and institutes passed on the fields most fallen behind from the small enterprises of the EU in terms of competitiveness meaning the biggest problem in Hungary had to be changed within a short time. One of the reasons for this was that new rules for the categorization of SMEs were implemented in the EU. The new categorization, which – by increasing almost every category of the SMEs – enriched the number of organizations belonging to the sector supported by SME policy, was taken over in only two details by the Hungarian SMEs politics as follows:

Comparative table of definitions of SMEs

	1 January 2000 – 30 April 2004	1 May 2004 – 31 December 2004	1 January 2005
Micro-enterprise within the SME category			
Total staff number	0–9 persons	0–9 persons	0–9 persons
Annual net turnover	–	–	HUF equivalent of EUR2 million
Annual balance sheet total	–	–	
Small enterprise			
Total staff number	10–49 persons	10–49 persons	10–49 persons
Annual net turnover	HUF700 million (~EUR2.8 million)	HUF equivalent of EUR7 million	HUF equivalent of EUR10 million
Annual balance sheet total	HUF500 million (~EUR2 million)	HUF equivalent of EUR5 million	HUF equivalent of EUR10 million
Medium-sized enterprise			
Total staff number	50–249 persons	50–249 persons	50–249 persons
Annual net turnover	HUF4000 million (~EUR16 million)	HUF equivalent of EUR40 million	HUF equivalent of EUR50 million
Annual balance sheet total	HUF2700 million (~EUR10.8 million)	HUF equivalent of EUR27 million	HUF equivalent of EUR43 million

The other reason for adjustment was the reorganization of the EU SME-politics, partly in connections both policy and changes of size. The Council of Europe-decision made in Lisbon in 2000 set the aims of speeded increase of viable enterprises' competitiveness, establishing of 'knowledge-based' economy also able to compete with US economy and sustainable development. Besides this, motivating the foundation of businesses and further development of entrepreneurial culture were also included among the objectives. In Lisbon, there were also talks about making the legislation and regulations more understood and logical, better use of the united market, even more fundamental harmonizing of tax- and financial matters, increasing the technological performance of small enterprises, improving small enterprises' representation of interests, but the help of self-employed and beginners was not included among the objectives. All these decisions were too early for the too small, to new Hungarian SMEs. Similarly, the Bologna Charta organized by the OECD – to which we also wished to adjust – (and whose continuation was also the ministerial meeting in Istanbul in 2004) with the title 'Strengthening enterprises and innovative SMEs in a global world' did not really help to heal or show an example for the Hungarian small enterprises problems, either. (It would have been good, for example, if these

measures had also motivated to help beginners and self-employed and lead them into the world of real enterprises, to advance networking, to implement strict and honest control against corruption and to teach how to use IT. It would have been useful to show successful foreign examples – possibly based on personal visits.)

In 2002, in the next European document meant to help enterprises, the emphasis was put elsewhere again by the objectives of the European Charta for Small Enterprises: this time, improvement of providing information for enterprises, education and training of entrepreneurs was put into the foreground. And in 2003, the ‘Green Book’ was published, which at last aimed also to dismantle the limits of the enterprises’ start and development, to provide better availability of financial resources and to make society to value the entrepreneurships.?). An economy having based on market-economy only for scarcely a decade can adjust to so many and so quickly-changing rules and regulations with difficulties only.

### ***The last Hungarian measures aimed to develop Hungarian economy***

After accepting Hungarian application into the EU we had to make the 1st National Plan of Development (for the time until 2005) to receive EU – first of all the Structural – Funds. In the frame of the plan – among others – it was decided the reduction of taxes, social insurance contributions and other burdens. One aim of this was to increase the competitiveness of Hungarian companies – according to EU-policies, secondly, to simplify rules of taxes, thirdly, to apply the tax measures most generally-spread in the EU, fourthly, to satisfy Hungarian economic requirements. Decrease of degree in state re-distribution was also a goal. Accordingly, the following steps were taken in Hungary: modifying both K+F activities and tax reduction of enterprises increasing employment in a positive direction, modifying the law concerning the order of taxation, widening e-tax-administration, modifying the consumer-tax to registration-tax, further modifying the law of accounting, improving the conditions of rules about making reports public, modifying the law of road tax, provision of ceasing the itemized – not fitting anything, increasing only the income of state budget – health care tax, stricter control of feigned contractions – just to mention the most important ones.

All these measures had the assumption that the dynamic development of Hungarian economy makes the easement of burdens possible. Unfortunately, after the Parliamentary Elections in spring 2006 it became clear that our state debts are so high that joining to the Euro-zone in 2010 can be reached only by extraordinarily big downsizing of expenses, raising income, significant increase of inhabitant- and entrepreneurial burdens – if we can reach it at all. Now comes a next turn of adjustment whose details we have been not familiar with yet.

### ***The state of SMEs at the time of the latest published survey:***

Significant catching up can be observed on several important fields (financing, self-organizing, application of info-communication technologies, refinement of management methods to a certain extent, becoming more flexible and open, networking, fitting the rules). At the same time, a very severe falling behind can be experienced on the fields of marketing of own business, speaking languages, administrative burdens and coping with them. Due to the present economic state, enterprises do scarcely satisfy one of their main goals: to enlarge employment. Beside of it the gap between enterprises without employees and micro-enterprises on the one hand, and of SMEs on the other is growing.

Comparing data of earlier period are at our service only until 2003 – and grouping still took place based on old indexes, and the EVA-enterprises did not become separate yet because they hardly had any data yet. Account made in the beginning of 2003 showed the following data:

Main indicators characterizing the situation of enterprises, by staff category, 2003 (%)

Staff head-count	0–1	2–9	10–49	50–249	SMEs total	250+	Total
Number of enterprises	26.3	69.8	3.2	0.6	99.9	0.1	100.0
All employed	21.6	19.9	17.0	15.5	74.0	26.0	100.0
Net turnover	6.5	14.4	21.2	18.7	60.8	39.2	100.0
Exports	2.1	5.2	14.6	13.7	35.6	64.4	100.0
Gross value added	5.5	11.2	16.0	18.7	51.4	48.6	100.0
Own capital	7.6	10.2	14.4	15.9	48.0	52.0	100.0

State of Small and medium Size Businesses in Hungary 2003-2004, Annual Report

Already in 2004, a very strict and unusually bureaucratic application-system worked for Hungary. It was far not well-served by home-infrastructure, which required better skills in application-writing – or turning to application-writers for no little money. Plus Hungarian non-agricultural enterprises could turn for support only to the Economy Developing Operative Program and Human Resources Developing Operative Program. These were enough for entrepreneurs – applicants and non-applicants – to refer to the bureaucracy of authorities, longish administration and widely-spread corruption – rightly.

To date, Hungarian small and medium-sized enterprises are characterised by a duality: they show every sign of catching up in many important areas (financing, self-organisation, management, ICT), but also a considerable backlog relative to their peers in the developed economies. Development policy must take both circumstances into account, viz. sustain/accelerate catching-up, while relying firmly on positive developments attained already.

Development policy should aim at eliminating three major deficits:

- Despite the marked expansion of **external funding** in recent years, Hungarian companies still attract considerably less external resources to growth financing than enterprises operating in the developed economies: 80% of Hungarian enterprises operate without credit, while in the developed economies, the corresponding ratio is 15–20%. A similar backlog is observable in capital financing.
- Small enterprises do not access sufficient **information** and management guidance to inform their business decisions and to identify the targets of future development.

- Frequent changes in the legislative environment and high administrative and tax burdens imposed on business enterprises restrain their **scope of motion** to an unjustified degree, while they are being increasingly exposed to international competition.

The tax and contribution system is a decisive factor of competitiveness enhancement and employment promotion. Under this sign, several tax-type incentives were introduced in the past two years, but these also implied the growth of other burdens, with interfering consequences moderating their impact for the enterprises.

Owing to repeated changes in the definitions of small and medium-sized enterprises, this report can only classify them by staff size. The omission of such categories as net turnover, balance sheet total etc. implies that the performance of minor companies may seem bigger than it would in a more nuanced context. Furthermore, with the introduction of the simplified entrepreneurial tax (EVA) – as enterprises subject to EVA provide very little data on their activity –, less information is available on the smallest enterprises than before. For these reasons, there are major discrepancies between the figures of the previous yearbooks and the present one, most conspicuous in the categories of net turnover, exports and value added, respectively.

The basic structural features of SMEs hardly changed over the past period: their business management is characterised by high labour and low capital intensity, and their employment contribution exceeds by far their share in either sales revenue or income generation. Although this is quite natural in itself, in international comparison, the gap between small and large enterprises seems rather marked and tends to widen rather than narrow.

The number of enterprises has kept increasing. The spread of the services branches to the detriment of the manufacturing and commercial ones continued. The territorial distribution of enterprises has remained essentially unchanged.

Employment decreased in 2002–2003 in the circle of both individual and corporate enterprises, by around 65 000 in the first category and around 100 000 in the second, where the decrease was most pronounced among medium-sized and large enterprises with more than 50 staff.

The ownership structure – i.e. property ratios by main owners – has stabilised. Micro- and small enterprises are typically owned by domestic private individuals, medium-sized ones by domestic partnerships, large ones by foreign owners. Within the total corporate equity stock, the share of large enterprises is paramount and slightly rising, while that of small and medium-sized enterprises tends to decrease – that is, capital concentration is intensifying.

Networking as reflected by the distribution of interrelationships between proprietors has made progress in the Hungarian economy: the number and value of investments, as well as their ratio to registered capital overall increased. By implication, linked enterprises command more resources than unlinked ones and hence their performance, too, is superior.

Investments by corporate enterprises fluctuated in 2000 – 2003, rising over the previous year in 2001 and falling in 2002 and 2003. Over the four years, investments increased by 1 per cent in real value. Micro-, small and medium-sized enterprises, respectively, invest on a rather similar scale, exceeded by far by the corre-



sponding activity of large enterprises, which, however, shows a declining tendency. In comparison with 2000, in 2003, investments by enterprises with 0–1 and especially those with 10–49 staff increased, while those of medium-sized and large ones decreased.

As for the generation of added value, the staff category distribution of enterprises underwent no change of merit: the share of micro- and small enterprises rose, and that of medium-sized and large ones fell slightly. Micro- and small enterprises produce one third of added value, medium-sized ones around one fifth whilst large ones almost half.

Large enterprises realised 40 per cent of the total net turnover, medium-sized ones almost 20% and micro- and small ones another 40 per cent – this distribution was stable throughout the period of 2000–2003. As for export sales, the share of large enterprises – preponderant, as ever – fell slightly and that of micro- and small ones increased.

More than one third of enterprises reported losses in 2002–2003. The effectiveness of private enterprises fluctuated rather markedly, but the overall tendency relative to 2000 was a deteriorating one. In 2001 and in 2003, the private enterprises altogether were in the red. The profits of corporate enterprises, on the other hand, showed spectacular growth in real value terms, too.

Productivity, i.e. gross added value per employee, continued to increase in 2003 relative to the two previous years, in excess of the average in the categories of micro- and small enterprises. From among the profitability indicators, both return on turnover and return on own capital improved. Micro- and small enterprises have been producing the best rate of return on assets consistently, while the corresponding performance of medium-sized ones tended to decline and that of large ones to ameliorate.

Corporate tax burdens are inversely proportional with size, decreasing from the smaller towards the larger entities.

The distribution of fixed capital formation as well as of labour and capital incomes is highly concentrated. In the business sector, employee incomes have been declining slowly in real value since 2001. Labour incomes increase progressively with enterprise size. The wage and staff costs of large enterprises are almost twice the corresponding amount paid by micro- and small enterprises. Proprietary incomes – dividends and shares – multiplied by almost 1.5 in real value from 2000 to 2003, the greatest part being paid at large enterprises.

External funding of small and medium-sized enterprises has made further significant headway. The number, amount and stock of credit placements rose by 6, 21 and 40%, respectively. Credits on a smaller scale than before are accessible to a growing circle of the enterprises.

**Distribution of the net turnover of enterprises, by staff category (%)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003***</b>
<b>0–1 employee*</b>	6.3	6.7	8.2	6.8
<b>2–9 employees**</b>	15.0	14.8	15.3	14.3
<b>10–49 employees</b>	19.9	19.0	20.4	21.2
<b><i>MSEs total</i></b>	<i>41.2</i>	<i>40.5</i>	<i>43.9</i>	<i>42.3</i>
<b>50–249 employees</b>	18.9	18.5	19.3	18.6
<b><i>SMEs total</i></b>	<i>60.1</i>	<i>59.0</i>	<i>63.2</i>	<i>60.9</i>
<b>250 or more employees</b>	39.9	41.0	36.8	39.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*\*2000 and 2001: data on sole proprietors referring to 0 staff only\*\* 2000 and 2001: data on sole proprietors referring to 1–9 staff*

*\*\*\*Enterprises under the EVA scheme included*

*Source: Computation based on tax returns*

**Contribution to gross added value by enterprise size in the business sector, 2000–2003 (%)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>0–1 employee*</b>	5.2	5.9	7.7	5.5
<b>2–9 employees**</b>	10.0	10.4	12.1	11.2
<b>10–49 employees</b>	14.9	15.3	16.1	16.0
<b><i>MSEs total</i></b>	<i>30.1</i>	<i>31.6</i>	<i>35.9</i>	<i>32.7</i>
<b>50–249 employees</b>	20.0	19.2	19.7	18.7
<b><i>SMEs total</i></b>	<i>50.1</i>	<i>50.8</i>	<i>55.6</i>	<i>51.4</i>
<b>250 or more employees</b>	49.9	49.2	44.4	48.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*\*2000 and 2001: data on sole proprietors referring to 0 staff only \*\* 2000 and 2001: data on sole proprietors referring to 1–9 staff*

*Source: Computation based on tax returns*

Branch distribution of active enterprises in 2000 and in 2004 (%)

	<b>2000</b>	<b>2004</b>
<b>Agriculture</b>	3.5	4.5
<b>Manufacture</b>	12.1	8.8
<b>Construction</b>	8.2	9.4
<b>Trade</b>	27.6	21.1
<b>Catering</b>	3.9	4.6
<b>Transport</b>	3.5	4.8
<b>Financial services</b>	0.9	3.1
<b>Real estate, renting and business activities</b>	31.3	31.0
<b>Education</b>	1.5	3.0
<b>Health care</b>	3.1	2.8
<b>Other services</b>	4.3	6.9
<b>Total</b>	100.0	100.0

Source: CSO

**Development of employment compared to 2000**

(thousand persons)

	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>0–1 employee</b>	153	153	-75
<b>2–9 employees</b>	65	-98	-31
<b>10–49 employees</b>	9	16	-19
<b>MSEs total</b>	227	71	-125
<b>50–249 employees</b>	-6	-6	-24
<b>SMEs total</b>	221	65	-149
<b>250 or more employees</b>	-16	-40	-39
<b>Total</b>	<b>208</b>	<b>23</b>	<b>-188</b>

Source: Computations based on tax returns

It should be added that prior to the austerity measures announced just a few days ago (June 2002) 15-20 percent of small and medium enterprises seemed to be prepared to enter the EU market and they described their prospects as promising in this field. Around 60 percent of SMEs considered themselves competent enough to maintain their current standard of living among EU entrepreneurs for the time being and for the future. The rest of them regarded their situation as deteriorating. We will see, what will be their opinion after the coming out of the so called Gyurcsany" packet (the name is the name of the Hungarian prime minister) after the Convergence Act, which should be given to the EU till 1<sup>st</sup> of September 2006. It will contain a lot of tightening measures – increasing the state income and decreasing the income of entrepreneurs and the inhabitant in the interest of joining the EURO-zone in 2010.

## ***SUPPLEMENT***

### **The macro-economic situation of Hungary prior to EU accession and in the following two-year period**

During 2001-2002 Hungarian agriculture was derailed from earlier growing course controlled by export- and investment – partially by external conditions becoming unfavorable and partially by internal use-up rocketing due to the election-promises, and the quite low economic growth-rate of the Euro-zone predominantly effecting the open Hungarian economy slowed the growth of Hungarian economy further in 2003. Moreover, this resulted in worsening (began from 2001) of current pay balance. In 2004, deficit reached 7.1 billion Euros. (At the present – in the middle of 2006 –, it is reaching 7-8% of the GDP.) However, from 2004 gross domestic product has increased by 4% -better than European average, investments and export have started to grow again, internal use-up has become slower, (and the latter has only increased again in 2005 due to infrastructural investments – firstly due to growing motorway-constructions). Retail price-index has decreased from 10% in 1999 to 6.8% in 2004, and production price-index fell from 5.15% to 3.5% in the same period. Apart from the increase of deficit in the budget – and state-debt together with it -, only the unfortunate, utmost strong decline of activity-rates to an extent not considered enough by the government was a negative phenomenon between 1999-2004: this latter grew by 0.7%.

Development of major macroeconomic indicators in Hungary, 1999–2004

	1999	2000	2001	2002	2003	2004
GDP (volume index)	104.2	105.2	103.8	103.5	103.0	104.0
Industry	107.2	109.6	100.4	101.3	105.4	105.0
Construction	104.3	106.9	105.2	112.9	101.2	105.2
Agriculture	100.9	92.1	123.4	87.9	96.0	136.3
Wholesale and retail trade, repair, hotels and restaurants	100.5	102.0	105.9	106.7	105.3	103.4
Transport, telecommunication	105.5	102.3	103.6	101.6	102.6	104.5
Other	103.6	105.2	103.9	104.3	100.8	101.7
GDP, domestic demand	105.0	104.4	101.9	105.4	105.4	103.3
<i>of which</i>						
Final consumption	104.4	104.5	105.8	108.7	107.3	102.2
Investment	105.3	107.4	103.5	107.8	102.2	107.8
Commodity trade						
Exports	115.9	121.7	107.7	105.9	109.1	117.0
Imports	114.3	120.8	104.0	105.1	110.1	114.0
Consumer price index	110.0	109.8	109.2	105.3	104.7	106.8
Producer price index	105.1	111.6	105.2	98.2	102.4	103.5
Balance of trade, USD bn	-2.99	-3.99	-3.18	-3.28	-4.67	-4.7
Balance of convertible current account, EUR bn	-2.3	-4.4	-3.6	-4.9	-6.4	-7.1
Number of employed persons (000)	3811. 5	3849. 1	3859. 5	3870. 6	3921.9	3900.0
Rate of activity (%)	53.1	53.5	53.3	52.9	53.8	53.8
Number of registered unemployed persons (000)	404.5	372.4	342.8	344.9	359.9	400.6
Budget deficit, HUF bn	- 328.3	- 367.8	- 402.9	- 1469. 6	-732.4	889.0
Net household savings, HUF bn	7315. 7	8538. 1	9664. 2	1049 8.2	10853. 5	11811. 8

Source: Hungarian Central Statistical Office, Ministry of Economy and Transport, The Central Bank (MNB)

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