126324

ECONOMIC LIBERALIZATION AND PRIVATIZATION IN HUNGARY AND EGYPT

Jean Tesche and Sahar Tohamy

Working Paper 9410

WORKING PAPER SERIES

ECONOMIC RESEARCH FORUM
FOR THE ARAB COUNTRIES, IRAN & TURKEY

ECONOMIC LIBERALIZATION AND PRIVATIZATION IN HUNGARY AND EGYPT

Jean Tesche and Sahar Tohamy

Working Paper 9410

Please address correspondence to: Sahar Tohamy, Department of Economics, Emory University, 1641 North Decatur Road NE, Atlanta, Georgia 30322, U.S.A.,
Fax: (404) 727 4639.

Economic Liberalization and Privatization in Hungary and Egypt

Jean Tesche[†]

and

Sahar Tohamy[†]

This draft: February 1994

[†]Economics Department, Emory University, Atlanta, Georgia, USA.

We would like to thank Heba Handoussa for the suggestion motivating this paper. She and Penny Prime also provided helpful comments.

Abstract

In this paper we compare the background and recent economic reforms in Hungary and Egypt. We analyze economic liberalization policies, the development of legal and institutional infrastructure for the private sector, and divestiture of public enterprises. We argue that most of Egypt's privatization and much of Hungary's has come through the relaxation of government interference in the private sector. We present unemployment as a major social problem affecting structural reform efforts. We conclude that divestiture of public enterprises should not be the exclusive, or even main, concern of government policy or external advice.

ملخص

نقوم فى هذه الورقة بعقد مقارنة بين خلفية وواقع الإصلاح الأقتصادى فى كل من المجر ومصر وذلك من خلال تحليل سياسات التحرير الأقتصادى وتنمية هياكل البنية الأساسية القانونية والمؤسسية للقطاع الخاص والتصرف فى المشروعات العامة. وفى رأينا أن معظم إجراءات التخصيصية فى مصر، والكثير منها فى المجر، تمت نتيجة تراخى الحكومة فى التدخل فى شئون القطاع الخاص. كما نستعرض قضية البطالة بأعتبارها أهم مشكلة أجتماعية تؤثر على جهود الأصلاح الهيكلى، ونخلص من الدراسة إلى أن التصرف فى المشروعات العامة لايجب أن يكون محل الأهتمام الأوحد أو الأساسى للسياسة الحكومية أو محور التوصيات الخارجية.

1. Introduction

Privatization is on the agenda in many parts of the world. Since the dramatic political changes beginning in 1989, a great deal of research has focused on Eastern Europe, where the scope of privatization is enormous, given the legacy of central planning and the predominance of social or state ownership. At the same time, many developing countries are also pursuing economic liberalization and privatization. In this paper we compare the recent reform process in Hungary and Egypt in terms of a broad definition of privatization. We focus on three areas: liberalization of economic activity, building the legal and institutional infrastructure that governs private economic activity, and divestiture of state owned assets. This broad definition is concerned with "the pace at which the private sector grows, (i) in the form of newly established firms, or (ii) through the transfer of state wealth, or by combinations of both these forms" (Kornai, 1992). In contrast to many earlier works presenting possible privatization models[1], we compare programs which have been implemented or are in progress in Egypt and Hungary.

Hungary is representative of Eastern European formerly centrally planned economies in many ways, but has the longest history of market-oriented reform. Egypt was never a socialist country in the Soviet mold. However, as a result of Nasser's widespread nationalization drive in the 1950s and 1960s, there was a large state sector and the government had a large role in controlling both public and private activities in the economy. There are clearly large differences between the two economies, including population, income levels and the size of government (Tables 1 and 2). In spite of nationalization, Egypt's public sector remained much smaller than that in Eastern Europe. Most government intervention, while tremendously distorting real economic incentives, relied heavily on price and quantitative restrictions with little interference in property right structures. However, the positions of Egypt and Hungary in the process of liberalizing their economies and privatizing are comparable. They started their recent reforms in 1990, when Hungary's new freely elected government announced its plans to join the EC and to reduce state ownership to 50% of GDP in 3 years and Egypt began liberalization in preparation for its Economic Reform and Structural Adjustment Program (ERSAP). Both countries have extremely high levels of external debt (Tables 3a and 3b), which limits the government's room to maneuver during structural adjustment. In addition, both are facing rising, politically difficult, open unemployment.

We argue that most of Egypt's privatization and much of Hungary's has come through relaxation of government interference in the private sector, with little distinction between the treatment of public or private firms. Although this may be a somewhat slower process, this kind of privatization is part of an organic growth of the private sector.[2] Laws and regulations that do not distinguish between private and public sectors and liberalize the economy serve two related, yet independent, functions. First, they lay the infrastructure for privatization of public sector firms by specifying the economic environment in which these firms will operate. Second, they speed the privatization of the economy independent of divestiture of public assets, through the opening of new opportunities for private economic activity.

A second important point is the sustainability of reform. The establishment of a competitive, pro-efficiency environment for the private sector engenders less opposition from groups affected by reform. Opposition to privatization of specific firms, especially in Egypt, represents a major obstacle to privatization. The threat of added unemployment and therefore political instability, increases uncertainty about the success of the entire structural reform process. The low per capita GDP in Egypt ($610 in 1991, Table 1) represents a political dimension in privatization that is not present in Hungary. Although standards of living for fixed-income groups have fallen in Hungary, the situation in Egypt is more politically costly. It took approximately forty years and huge government budget deficits to reduce the share of the poor (monthly income of $25) in the total population from 35-40% to 25-30% in 1992. Finally, a large number of small and medium sized firms can help counterbalance the political influence of large (public or private) firms.

Section 2 briefly reviews the pre-reform period in Hungary and Egypt. Section 3 examines reforms since 1990, including liberalization, legal and institutional changes, privatization programs and unemployment. Section 4 concludes the paper.

2. The Pre-reform Period

At the beginning of the current reform period, beginning in 1990, Hungary had a much larger public sector than Egypt, but both economies were highly distorted. They arrived at this state from very different directions: Hungary through partial reforms of a traditional centrally planned economy and Egypt through increasing government intervention in an economy based on private ownership. Tables 4a and 4b provide macroeconomic data on both countries for most of the 1980s.

Hungary, like the rest of Eastern Europe, adopted a Soviet style centrally planned system after the Second World War. The first attempt at comprehensive economic reform began in 1968 with the introduction of the New Economic Mechanism (NEM). The most important change was the replacement of central allocation of products through plan instructions with indirect financial controls. The NEM increased enterprise autonomy in areas such as investment and wages and partially changed focus from output to profits. However, bargaining between firms and the central bureaucracy continued over special tax and subsidy treatment, since the ministries remained intact.[3] Although somewhat successful in terms of increasing growth, reform went no further after 1972.

Reform began again after the second oil price shock, due to decreasing growth. The reforms increased enterprise autonomy, legalized a limited private sector and, finally, started changing the institutional environment. In 1977 enterprise autonomy was first legally recognized and the concept of "freedom of contract" was reintroduced into the commercial sphere (Gray, Hanson and Heller, 1992). In 1980 and 1981 the organization and authority of the ministries were changed and some of the large trusts were broken up. Small private enterprises were legal from 1981. From 1982 public enterprises (PEs, also called state owned enterprises) could form subsidiaries and sub-contract with workers to work extra hours that were not subject to wage controls (Boote and Somogyi, 1992). The 1984 Enterprise Council Law allowed employees to elect management, subject to central veto.

During the last part of the 1980s reform accelerated. In 1986 a bankruptcy law was introduced. In 1987 more retail prices were freed (63% by 1989), and maximum limits on land ownership were abolished. In 1988-89 a western style tax system was introduced including value added, corporate and personal income taxes. In 1989, the last year of communist government, the stock market was reopened, private enterprises were allowed to hire up to 500 employees and 100% foreign ownership was allowed. Imports began to be liberalized and government subsidies decreased. Many firms were allowed to export directly, bypassing the state foreign trade monopoly. A law defining types of economic associations (partnerships, limited liability and joint stock companies) came into effect.

As a result of 20 years of partial reform, Hungary in 1990 was far from a traditional centrally planned economy. Although production was still overwhelmingly in the state sector, many restrictions on private economic activity and ownership had been abolished. A good start on changing the legal and tax structures to support a market economy had been made.

Egypt, like many developing countries, launched an extensive inward-oriented, government-led industrialization in the 1950s and 1960s.[4] Nationalization targeted larger industrial and financial establishments[5], so most businesses with less than fifty employees remained private. In agriculture, government cooperatives acted as monopsony buyers of output and monopoly suppliers of farm inputs to private farms. Cooperatives in industry were not as prevalent, and only served some marketing, purchasing, and foreign exchange needs.

Liberalizing reform was attempted in 1974 with the Open Door Economic Policy (ODEP). Its purpose was to reduce the dominance of the public sector, encourage private sector participation and outward orientation through the relaxation of some foreign currency restrictions and the introduction of tax holidays and export incentives. Social goals, however, remained paramount and public firms were used to achieve these goals through price controls and guaranteed employment policies (Ikram, 1980). ODEP did change the direction of trade significantly. Although the public sector continued to dominate exports (88% of industrial exports), 84% were in convertible currencies in 1988, up from less than 50% in 1976 (World Bank, 1992).

The success of the ODEP was limited for a number of reasons including continued access of public sector firms to cheap credit, subsidized inputs, protection from imports, and private sector competition. Bureaucratic obstacles - such as the need for licenses to start a private business or expand capacity - kept the private sector from growing. An over-valued currency and negative real interest rates biased private sector investment towards capital intensive production. The informal sector (employing 10 or less workers) was able to absorb a large part of Egypt's labor surplus. This sector was estimated to account for as much as 90% of employment in the non-agricultural private sector in 1986 (Handoussa and Potter, 1992), but had limited access to credit, marketing, and export facilities available to its larger public and private counterparts.

Further reform efforts were able to be postponed due to large capital inflows from oil exports, U.S. aid after the Camp David Accord, Suez Canal dues, and Egyptian workers' remittances from employment in oil-Arab countries. Between 1976-86 out-migration reached as high as 10 percent of labor force (Handoussa, 1992). The 1977 food riots against increases in bread prices also contributed to government reluctance to continue reform.

However, in 1982, as government revenues from the oil sector declined and debt obligations increased, the situation became unsustainable. The government was forced to reduce its pledge of a job in the government for those finishing vocational schools or universities at about the same time that Egyptian workers in Arab countries began to return home. Open unemployment increased to 12% in 1982 up from 7.5% a decade earlier (Handoussa, 1992). The government's efforts to control the budget deficit continued between 1982 and 1989. Reform policies, however, were only adjustments within the existing economic structure. The government was reluctant to drastically decontrol prices or liberalize energy and foreign currency.

The net outcome of these inconsistent policies was an economy that, while based on private ownership, lacked either a strong leading public sector, or an independent, efficient private sector. Over 75% of industrial output was still subject to price controls in Financial Year (FY) 1990 (Handoussa, 1993).

To summarize, the limited success of ODEP in Egypt was due to the lack of a comprehensive policy to liberalize the economy and remove the preferential public sector position. Incentives to encourage private investment and export orientation were offset by economy-wide distortions, discretionary licensing, and bureaucratic obstacles. In addition, the government continued to rely on public enterprises to achieve various distributional goals. Similarly, in Hungary, until the late 1980s, reform policies concentrated on improving the performance of public enterprises and increasing their autonomy. Reform, however, was partial, maintaining the (reduced) control of ministries and central bureaucracy. In both countries earlier reform efforts lacked the comprehensive nature of post 1990 reforms.

3. Recent Reforms

In the following sections we examine post 1990 developments in Hungary and Egypt in three main areas: liberalization, legal and institutional changes, and privatization. Although the pace of privatization has been criticized as too slow in both countries, we argue that progress made in liberalization and the legal and institutional structure, has significantly altered the economic environment in favor of market relations and competition. In Hungary, this has led to a rapid increase in the size of the private sector. In Egypt, significant progress has been made in removing the bias toward the public sector and freeing the private sector from over-regulation. These changes have had much more impact than divestiture. Problems with unemployment are also discussed with since they have serious implications for the sustainability of reform in both countries.

In 1990, the new democratically elected government in Hungary announced its intention to accelerate market oriented reforms and to decrease the share of state ownership to 50% by the end of 1993. That same year Egypt began changes related to the ERSAP to continue through FY 1997. Debt relief of around $13 billion by Arab Gulf states and the U.S. as a reward for participation in the Gulf War allowed the government to consider reform feasible. IMF and World Bank assistance depended on extensive public sector reform and privatization, liberalization of prices (especially energy prices), reduction of government subsidies and simplification of investment licensing procedures. In addition, progress in ERSAP entitled Egypt to a total of 50% ($10 billion) relief of its official debt to Paris Club countries.[6]

Economic performance has been mixed since 1990 in Hungary (see Table 4a). Output and industrial production has decreased and unemployment increased to 13% by the end of 1992. Part of the decrease in production is due to the loss of CMEA (East Bloc Trade Group) markets and drought. Inflation has stabilized at around 20%, down from its peak of 35% in 1991. The trade balance turned negative in 1992 after 4 years of surpluses (Table 5a). On the positive side,

Table 6 shows the explosion in the number of enterprises. The number of non-incorporated enterprises and individual entrepreneurs have doubled since 1988. The number of joint stock and limited liability companies has increased from 700 to 60,000.

In Egypt the external situation has improved in the last three years (Table 4b). The current account is positive after years of chronic deficits when reserves of foreign currency could not cover one month's supply of imports. While the balance of trade remains negative, and is expected to grow with further trade liberalization, the balance of payments surplus continues to grow (Table 5b). External debt was 107% of GDP at the beginning of 1993, down from 145% in FY 1990. The external debt service ratio dropped from 40-50% of exports in pre-reform years to 18.5% in 1993 (The Banker, 7/93). Inflation decreased from around 20% to 14% in 1992 and 9% by the end of 1993 (Al-Ahram, 1/7/94). Official unemployment has remained around 12-14%.

3a. Liberalization

Policies to liberalize domestic prices, trade, and currency are fairly similar in both countries; they vary only in detail or position on each country's priority list. Differences in parts of the reform packages are necessarily a function of each country's pre-reform experience. For example, reform of agriculture in Egypt entails only price and trade liberalization while that of Hungary involves more complex restitution and de-collectivization policies. Labor market liberalization, on the other hand, is a more severe problem in Egypt due to the high population growth that is not present in Hungary.

Substantial price and trade liberalization had taken place in both countries as part of previous reform efforts. By 1991 prices and imports had been nearly completely liberalized in Hungary. Extensive liberalization has been the most developed aspect of ERSAP in Egypt.

Domestic oil prices increased from an average of 35% of world prices in the 1980s to a weighted average of 80% of world prices by June 1992.[7] The recent drop in international prices brought domestic prices to parity with world prices (Al-Ahram, 12/6/93). Electricity prices reached 69% of long run marginal costs in 1992 and are expected to reach 100% by 1995 (Handoussa, 1993). Prices of competitive goods were freed first, but by the end of 1993, all industrial prices, except pharmaceutical products and oil, were scheduled to be freed (Al-Ahram, 12/6/93).

Agriculture subsidies have decreased in both countries. In Hungary these declined from nearly 5% of GDP in 1989 to an estimated 1.5% in 1992 (Kopint-Datorg, 1992). In Egypt, subsidies on fertilizers and pesticides have been reduced gradually and the state ended its monopoly on their distribution. Private dealers now account for over a third of supply (Handoussa, 1992). ERSAP abolished compulsory deliveries of the few crops still subject to them: cotton, rice, and sugar-cane. The government removed license requirements on exports of most agricultural products (Reuters Library Report, 11/9/93). The state now allows private imports of wheat, but wheat milling remains a government monopoly (Reuters Library Report, 9/13/93). The government abolished most consumer subsidies on foodstuffs and eliminated the use of ration cards. Most remaining subsidies are of wheat and flour for bread. Cotton trade was scheduled to be totally freed by September 1993, but this has been postponed due to the sharp decline in world prices (MEED, 11/15/93).[8] Cotton liberalization will allow farmers to sell their output freely to the public or private sector at prices determined through the cotton commodity exchange, which will re-open when liberalization is completed.

Both countries liberalized foreign exchange in the early stages of reform. In Hungary, the forint is convertible for current account transactions. There are few limits on foreign enterprises repatriating profits, and individuals have had access limited amounts of foreign exchange since 1988. Individual foreign currency bank accounts, with few questions asked as to the source of funds, have been legal since 1989 (Boote and Somogyi, 1991). In Egypt, foreign currency and interest rate liberalization resulted in record foreign currency reserves (Table 5b).

Hungary's trade relations changed drastically after 1990. In 1991 the East-bloc trade group CMEA collapsed. This trade still accounted for 30% of total trade in Hungary (Table 7).[9] Enterprises exporting to this market remained mostly centrally planned, so although it eliminated a major distortion, it also exacerbated the fall in output in the ruble export sectors, especially of machinery. In 1992 Hungary, along with Czechoslovakia and Poland, gained associate EC membership, including trade liberalization over 10 years, and concluded a similar arrangement with European Free Trade Area (EFTA) countries. Hungary was taken off the COCOM list of counties with restricted access to certain exports, and was granted most-favored nation (MFN) status as well as preferential tariff treatment by the U.S. The Central European Free Trade Area (EFTA), including the Czech Republic, Hungary, Poland and Slovakia, was also formed in 1992 with a planned 8 year liberalization of industrial trade (National Bank of Hungary, 1993).

Most trade liberalization under ERSAP removes trade barriers. Import licenses are no longer required. Non-tariff barriers have been reduced to a negative import list, the coverage of which fell from 210 items (36% of tradeable commodities) before ERSAP to 26 items (5%) by the end of 1993. Tariff privileges to public sector companies were abolished. Average tariff rates are 24% (ranging between 10% and 70%) and are due to fall to 20% (and the top rate to 50%) by the end of ERSAP (MEED, 6/4/93). Most export restrictions have been eliminated. Egypt's export base remains heavily dominated by oil products (50% of exports in FY 1991) and cotton and textiles (25%) (National Trade Data Bank, Market Report, 3/16/93, and Reuters Library Report, 9/21/93). Government efforts to stabilize the pound against the dollar to encourage capital inflows has reduced export competitiveness.

In 1990, Hungary further liberalized foreign investment. Government approval for foreign ownership above 50% was no longer required. As a result, a total of $5 billion had been invested in Hungary by 1992, half of the total for all of Eastern Europe (Table 8).[10] ERSAP's policies to encourage foreign investment have focused on removing bureaucratic obstacles rather than introducing new incentives.

3b. Legal/Institutional Structure

Reform in the provision of legal and institutional infrastructure for private activity in Hungary has meant the establishment of laws to govern privatized state owned companies and the newly flourishing private sector. In Egypt, however, reform focuses on liberalizing the existing private sector and removing privileges previously granted to public sector firms. Although this would seem easier, liberalization of protected domestic markets faces opposition from both the public and private sector. Much progress has been made in this area of reform in both countries.

Policies in the financial sector are strikingly similar, due to the dominance of public sector banks in both countries. To enhance the independence of monetary institutions from government intervention, both passed new laws governing bank activities. Both governments capitalized banks' balance sheets to meet the Basle Committee capital requirements guidelines. All but the five largest of Hungary's state owned banks and financial institutions are eligible for privatization. In Egypt the largest four public sector banks, accounting for over 60% of banking activity, are not eligible for privatization. The financial institutional environment in Hungary continued to develop with the creation of the Credit Guarantee Corporation to encourage bank lending to new businesses, the Export Guarantee Corporation, an inter-bank foreign exchange market, and a bank deposit insurance fund.

The stock market in Hungary has been functioning since 1989, but is still small with most trade in government securities. In Egypt, a capital markets law was passed in 1992. It regulates stock market activities and strengthens the Capital Market Authority's role in the securities market. It allows companies that comply with the required disclosure rules to issue bonds, and removes previous restrictions on bond pricing. It provides the mechanism for public sector companies to issue shares to increase private equity, and encourages existing private firms to raise additional capital through public offerings. The law allows the establishment of mutual funds and allows a variety of institutions to act as intermediaries. It provides tax incentives for companies to have more than 70% of their equity in public hands. Although over 650 securities are traded, only around 30 stocks are traded actively (Reuter News Service-Middle East, 10/25/93).

The combination of decreasing corporate income tax revenue and increased social spending due to the prolonged recession has made it difficult for Hungary to keep its government deficit under control. The deficit in 1992 was estimated at 7% of GDP (National Bank of Hungary, 1993). Government subsidies to enterprises and housing and price subsidies for consumers have decreased from 21% of GDP in 1986 to between 3-5% in 1992. Fiscal measures in Egypt have reduced the government budget deficit to 3.5% of GDP from around 20% of GDP in the 1980s. A general 10% sales tax was introduced in 1991. This was increased in 1993, with rates as high as 25% on some luxury items (Bureau of National Affairs, 10/93). The government improved tax collection methods, simplified income tax laws and increased fees for services.[11] A unified income tax law, which groups all sources of income together, will soon come before parliament. It will cut the number of income brackets from 21 to 7 and reduce the top rate from 65% to 50%.

Many laws have been passed in Hungary to create or consolidate the basis for a market economy. In 1991 a new bankruptcy law replaced the ineffective 1986 law. Beginning in 1992, any enterprise (including partnerships and entrepreneurs, but excluding banks) more than 90 days behind in debt, tax or social security payments must start bankruptcy proceedings. The law allows for both temporary protection from creditors and liquidation, and encourages reorganization. In 1992 there were a total of 4400 bankruptcy and 9900 liquidation filings. Of these, 11% were joint stock companies. A new accounting law consistent with EC law became effective the beginning of 1992. The competition law created the Office of Economic Competition to enforce anti-monopoly behavior and deal with unfair competition, although it is not allowed to order the breakup of existing large enterprises (Gray, Hanson and Heller, 1992).

In Egypt, substantial progress has been made in unifying the legal and institutional environment for public and private sector firms. A major step was Law 203 (Business Sector Law), passed in 1991. Law 203 governs PEs during the transition toward privatization.[12] PEs, now called affiliated companies (ACs), are organized under shell Holding Companies (HCs), that are also joint-stock companies. An AC's management is responsible for day-to-day decisions, yet the HCs oversee performance. ACs are subject to private sector commercial law, with profit maximization the goal against which management is evaluated (Handoussa, 1992). The Central Auditing Agency is responsible for auditing the ACs' accounts. ACs are subject to private sector labor laws, rather than the previous centralized wage scales. Law 203 applies to any AC in which one or more HCs hold more than 51%. If this share falls below 51%, the AC automatically falls under the private sector law.[13]

A number of policies were also implemented that are designed to increase the autonomy of public sector firms. The most important is the elimination of PEs' access to cheap credit. With limited exceptions, the Central Bank of Egypt has abolished government guaranteed loans, so PEs must compete for credit on a commercial basis. Compulsory government payments from profits have been eliminated. PEs' government obligations are now the same as those in the private sector: corporate taxes and a distribution of at least 10% of profits to workers. Half of an AC's Board of Directors is appointed by the parent HC, with the other half elected by employees (Khalifa, 1992). Liquidation procedures, labor laws, and auditing now fall under the private sector company law. The government is expected to unify business and private sector law as part of ERSAP. One weakness of Law 203 it that the heads of the HCs are government ministers, so relations with subsidiaries may be "business as usual". In addition, there is no limit on how long a public sector firm can continue to make losses before the HC decides to liquidate.

In addition to equalizing treatment of public and private sector firms, additional measures were implemented to liberalize the economic environment in Egypt. Private sector investment no longer requires licenses, except for a negative list. Activities on the negative list now only include raw aluminum, iron casting and cigarette manufacturing. Registration for investment is still required, but must be completed in a maximum of two weeks. Investors are no longer required to provide detailed project evaluations for proposed new investments or expansions. However, bureaucratic obstacles and unnecessary delays in registration persist. Further simplification of registration procedures is expected through eliminating the need for multiple approvals from different state agencies (Al-Ahram, 12/2/93). The Land Reform Law passed in 1992 will phase out rent control of agricultural land over 3 years, after which both rent and duration of contracts will be freely determined (Business International, 5/12/92).

As a part of the ERSAP, Egypt agreed to change labor laws to increase flexibility in the labor market.[14] The government faces opposition from both organized public sector workers, and private sector businessmen. The latter fear that change may relax restrictions on strikes with little change in hiring and firing restrictions. In fact, it is not clear how restrictive the labor law has been in practice the last few years. Most workers in the private sector are in small firms and enforcement of labor laws is limited for companies with less than 50 employees.

3c. Privatization

While both countries have relied on market-based privatization, rather than some type of distribution of shares via mass-privatization programs, the goals of divestiture differ significantly in scope. Egypt's private sector produced approximately 60% of GDP before ERSAP. The value added produced in PEs subject to law 203 was less than 15% of GDP in FY 1990 (Table 9). Of these, only 309 ACs out of 371 are potentially privatizable.[15] The scope of the privatization effort in Hungary (as in the rest of Eastern Europe) is much larger.

Although Hungary decided to pursue market-based divestiture of state assets, the non-state sector has grown rapidly as a result of liberalization and infrastructure changes. There are differing estimates as to the size of the private sector by the end of 1992. Figures vary from 30% of GDP (Ministry of Finance, 1993) to 40-42% (Slay, 8/93).[16] A Central Statistical Office survey found that companies with majority state ownership accounted for less than 50% of GDP in 1992 (MTI, 8/26/93). None of these estimates include the shadow or second economy. Table 6 gives figures for the number of business entities from 1988 through the first half of 1993. The growth in the number of enterprises, excluding PEs, as well as in non-incorporated partnerships and individual entrepreneurs has been explosive. Although the new firms are mostly small, clearly many people are involved in the market part of the economy.

Privatization in Hungary started before 1990 with "spontaneous" privatization, where the management of a PE established a subsidiary, often a joint venture with a foreign firm, using the assets of the original PE.[17] The PE could end up as a shell holding company with few of the assets, but most of the debt from the original enterprise. The State Property Agency (SPA) was created to implement privatization in 1991, partly in reaction to this practice. The SPA was to first turn large PEs into joint stock companies (called transformation or corporatization), then value and sell shares in these companies. It also supervised the pre-privatization sale or leasing of small retail trade outlets and was to supervise enterprises remaining in state ownership. Only at the end of 1992 was a new agency, the State Holding Company (AV, Rt.), created to manage those PEs remaining state owned.

The programs conducted by the SPA to privatize two groups of large firms were unsuccessful.[18] The first started in 1991 with 20 large and profitable PEs. They were to be privatized after being valued by international consultants. Problems included the slowness of the valuation process, high prices and firms' loss of value as the recession decreased profits. By the end of 1992 only two had been sold (National Bank of Hungary, 1993). Since the two Privatization Programs were so unsuccessful, the thrust of privatization changed. Now a variety of more decentralized methods are possible. With one, self-privatization, enterprises can choose consultants from a pre-approved list to value the firm. The consultants arrange the sale and get a commission with an extra bonus for speed. The SPA is obliged to accept the results.

Investor initiated privatization has been allowed from 1991. Offers, including those by management, worker buyouts or hostile takeovers, can be made directly to the SPA. The SPA then calls for a tender to see whether the offer is competitive. The Employee Share Program (from September 1992) allows employees to buy enterprises at market value, but pay in installments. Leasing is also possible with actually ownership changing only after all lease payments are made. Liquidation, the selling of part or all of enterprise assets, is also increasing.

Preprivatization, the sale or leasing of small shops in retail, catering and consumer services, started in 1990. Most businesses were auctioned and 70% of the cases involved leasing. There have been problems with high prices, but by mid-1993 most had been sold (Magyar Hirlap, 7/29/93).

The government decided to issue compensation bonds for land confiscated after 1939. They are issued for part of the property value, to former proprietors or their heirs. They can be used to buy property, houses, shares from the SPA or pensions. This method has the great advantage of separating restitution from current ownership issues, so will not slow investment.[19] There have been problems with the limited number of shares available for compensation bonds.

Agricultural privatization has been more difficult. All state farms except 20 of the most technologically advanced, are to be privatized gradually using the same methods as industry (including FDI). Cooperatives can choose to: 1) dissolve, 2) turn into a real coop where members join voluntarily and can leave and take their shares, 3) and 4) transform into a joint stock company or limited liability company for which the members get shares or land (Kopint-Datorg, 1992). The issues of compensation and restrictions on land use have taken longer to resolve.

Divestiture of PEs in Egypt has progressed rather slowly since the beginning of ERSAP. This limited progress has increased tension between Egypt and the World Bank and IMF in spite of Egypt's clear success in the stabilization and liberalization components of the program. One reason for this limited progress has to do with the size of enterprises to be privatized. Most of Egypt's public sector fits the category of large privatization in Hungary. For example, the two firms that have been privatized so far are considered of medium size, but together employ 10,000 workers (Economist Intelligence Unit, 9/14/93). On average public sector firms employ more than 800 workers, compared to an average of 17 workers per private sector establishment (World Bank, 1992).

The two completed full privatizations, from the list of 20 eligible companies, are The Nasr Bottling Co. and Egyptian Bottling Co. The mainly foreign buyers agreed to expand production to maintain present workforce levels. They also agreed to float 20% of equity on the stock market and offer 10% to workers in the next 2-3 years.[20] Bids for a third company, Suez Cement Co., are still being evaluated. It was already 80% public and quoted on the stock exchange.

Nine of the first 20 companies to be privatized are hotels and tourist companies. In spite of considerable interest in the tourism sector in the early months of ERSAP, demand fell drastically due to the threat of terrorist attacks. Low prices re-fueled opposition accusations that the government was selling its holdings too quickly at whatever price in order to satisfy its international donors.

Bank privatization has also begun. The Commercial International Bank, owned by the National Bank of Egypt, sold 30% of its capital to employees and 6% to the International Finance Corporation of the World Bank. Public offering of shares brought the total private share to 50%, with a planned increase to at least 70% by 1995.

Progress in ERSAP required the Public Enterprise Office (PEO), the agency responsible for privatization) to present a comprehensive privatization plan for 1992/93 with explicit guidelines as to the choice of companies to be privatized and specific targets for privatization and liquidation. The plan determined conditions for re-organization and liquidation of ailing public sector companies. Candidates for privatization are to be small to medium in size, commercially viable, with limited redundant workers, and must operate in fairly competitive markets to guarantee against private monopolization. The government proposed to privatize 85 companies of the 371 public sector firms that can potentially be privatized.[21] The cumulative privatization revenue from July 1991 through the end of 1993 is expected to be L.E. 1.5 billion. According to the Minister of the Public Enterprise Sector, the government will meet the target of preparing assets worth L.E. 2.3 billion by the end of the year, and L.E. 9.1 billion by June 1994 (Reuters 11/27/93). The government is a year behind schedule, but according to published guidelines, the state will sell 25 companies annually between FY 1993 to FY 1997 (Business International, 5/10/93).

Liquidation, however, seems to be impossible, given strong labor opposition. The government decision to liquidate Eastern Textiles Co., with debts of nearly two times the capital, was forcefully blocked by its workforce resulting in a rejection of the liquidation procedure by the People's Assembly. This raises serious questions about the government commitment to sever financial subsidies to loss-making companies.

A few smaller state firms have initiated restructuring and privatization efforts by selling all or majority shares to employees (Reuter News Service, 6/16/93). However, privatization of small scale projects through sale or lease was mostly limited to local government projects. By the end of 1992, a total of 1500 projects were sold for around $13 million, and a total of 57,000 acres of land were sold or leased to the private sector (Economist Intelligence Unit, 8/1/93).

3d. Social Issues: Unemployment

Although unemployment levels are lower than might be expected considering the scope of change in Hungary, the sudden increase in open unemployment from less than 1% in 1989 to 13% early in 1993 was certain to have major social implications. Government deficits are also affected as employment related expenses increased from less than 0.5% of GDP in 1990 to a forecast 5% in 1993 (Kopint-Datorg, 1992). Although much of the increase is due to severe recession from the collapse of East-bloc trade, the drought, and recession in Western Europe, restructuring of production also plays a part.

There are large regional differences in unemployment rates. They are the highest in the north-east due to the decline in the mining, metallurgy and machinery sectors (major suppliers of East-bloc exports). In many cases the PEs were the main employer in a town. The lowest rates are in Budapest and west, near the border with Austria. Nearly half of those unemployed have less than an 8th grade education and another third have only vocational training. Among university graduates, only 3% are unemployed (Kopint-Datorg, 1992). Official figures may over or under estimate unemployment. Many unemployed do not register with labor centers and are not counted. On the other hand, employment in the informal sector is also not counted. It is not clear how large this sector is. Restrictions on private enterprises was the main incentive for the shadow economy before the late 1980s, but now it is tax avoidance.

In Egypt, unemployment has been a continual concern of the government.[22] The current official estimate of unemployment is 14%, while unofficial estimates reach 20% (Economist Intelligence Unit, 8/1/93). It is important to separate unemployment problems in general from those caused by privatization. Public sector firms that are to be independent and potentially privatized, employed around one million workers, or about 7% of the total workforce in 1990 (Handoussa, 1993).[23] In contrast, population growth alone will add a minimum of 500,000 workers a year to the labor force.

The government was unable to meet its commitment to the groups for which jobs were guaranteed in the public sector long before privatization started (Al-Qudsi, et al., 1993). Unemployment in these groups was already high in 1988. For those with only vocational training unemployment was 12% for men and 34% for women. Unemployment among university degree holders was 8.8% for men and 15.6% for women (Labor Force Sample Survey 1988, in Al-Qudsi, et al., 1993). As part of ERSAP, the government established the Social Fund for Development (SFD) to compensate groups affected by reform. The government currently uses the SFD in job training programs for unemployed recent graduates and for public works in slum areas. The SFD is also used to provide loans to small businesses and job retraining and loans to workers affected by further privatization.

4. Conclusions and Policy Implications

In this paper we compared the background and recent reforms in Egypt and Hungary.

The experience of both countries indicates that the divestiture of PEs is but one part of a much larger picture. The experience in Egypt, where ownership is primarily private, but the level of government intervention very high, indicates that the size of the private sector alone is too narrow a definition of an economic system. The most widespread changes have come from liberalization and de-monopolization in order to have a vibrant small private sector and to keep large enterprises (public or private) from setting the political agenda in their favor. In addition, institutional reform and liberalization usually face less opposition than divestiture, for much more gain. It is important for governments to mobilize as much support for economic reforms as possible to sustain the momentum for reform.

The experience in Hungary, starting with an overwhelmingly large state owned sector, leads to a similar conclusion. Although divestiture of large PEs has been relatively slow, most liberalization and infrastructure changes have been put in place. The share of the private sector has been increasing rapidly due to the growth in small businesses. This method has not only turned out to be faster, but has the virtue of being decentralized and market oriented. Privatization of large PEs is important, especially in Eastern Europe, but should not be the exclusive, or even main, concern of government policy or external advice.

Endnotes

1. See for example: Kornai (1990), Epstein (1991), Lipton and Sachs (1991a and b), Mueller (1991), Murrell (1991), Tirole (1991), Clague (1992), Cooter (1992), Fischer (1992) and Rausser and Simon (1992).

2. In the three (now four) more advanced reformers, Poland, Czechoslovakia and Hungary, the sale or leasing of small enterprises went fairly quickly. Implementation of Czechoslovakia's voucher give-away has been slow, with the outcome still uncertain, Poland's version has yet to be implemented and Slovakia's has stopped. It is therefore not clear that Hungary's methods are much slower.

3. There is an extensive literature on the New Economic Mechanism. See, for example, Friss (1973), Balassa (1983), World Bank (1984), Kornai (1986) and Boote and Somogyi (1992).

4. Import substituting industrialization led by the private sector started already in 1930.

5. This included most of the foreign owned private sector as well as various industrial concerns, and increased government public investment such as the construction of the High Dam, land reclamation, the Iron and Steel Complex in Helwan, and the Aluminum factory of Naga'Hamady. For an exposition of this period of Egypt's history, see Robert Mabro (1974).

6. This is not a reduction in principal, but relieves Egypt of annual interest payments of about $1.3 billion a year.

7. Egypt, unlike Hungary, exports oil, so the cost of energy subsidies represents an opportunity cost rather than an explicit government expenditure. Prices for fuel oil were 6.5% of world prices in FY 1983, 15% for kerosene, 20% for basic cotton textiles and 50% for fertilizers (Handoussa, 1992).

8. Liberalization of cotton trade is not expected to significantly improve Egypt's balance of trade, since it faces regulated international markets.

9. These shares were 29% for Poland, 50% for Czechoslovakia, and 42% for Romania in 1990, and 72% for Bulgaria in 1988 (Handbook of Economic Statistics, 1991, International Financial Statistics, 1992).

10. 65% of FDI has been in manufacturing industries. The U.S. has been the largest investor with around 30% of the total, followed by Germany, Austria, France and Italy (MTI, 8/27/93).

11. Transport fares, gradually increased, inter-city buses and truck fares were liberalized, railroads tariffs gradually increased and are to cover 100% of actual cost by the end of ERSAP.

12. The main targets of Egypt's privatization program are non-financial PEs. Economic authorities, such as airport and electricity authorities, and most financial PEs are not to be privatized. However, some smaller financial enterprises are interested in privatization.

13. The main law governing private sector investment dates from 1981. It requires 49% Egyptian equity participation and offers incentives for share offerings, and investment in new cities. An alternative "Investment Encouragement Law" in 1989 exempted projects from some

currency and trade restrictions and does not limit foreign participation. It is not clear which private sector law a privatized AC will be subject to, but ERSAP's liberalization of trade and currency restrictions is decreasing the differences between the two laws.

14. Previous law provides labor with extensive rights and limits a private-sector firm's freedom to hire or fire workers. A firm must show zero profits or other substantial justification for government permission to lay-off workers. Any dismissal must be granted by a committee from the labor office, relevant union, and an employer representative. Union membership is allowed but strikes are illegal. Hiring of non-Egyptians is limited to 10% of workers and 20% of the wage bill. Short term employment (temporary or assignment-based) is not subject to firing restrictions. However, any contract longer than a one year, renewable contract is considered a long-term contract. Hiring of all workers, with the exception of "executive or technical staff" and temporary workers has to be through local Manpower and Training offices. Under both main private sector laws workers have the right to 10% of distributed profits.

15. The exceptions are: petroleum, the Suez Canal, communications, roads and bridges, radio and TV, and military production.

16. Comparable figures were 20% for Czechoslovakia and 45% for Poland, (Slay, 8/93).

17. Much of this section is based on Frydman, Rapaczinski and Earle (1992), which also provides a thorough discussion of privatization other Eastern European countries. Mora (1991) deals specifically with spontaneous privatization in Hungary.

18. The privatization of large PEs differ greatly in Czechoslovakia and Poland. Czechoslovakia has placed the main emphasis on 2 rounds of mass-privatization, where citizens can use vouchers to bid for enterprise shares (or place them in investment funds) equal to 60% of the state sector. The first round was completed in 1992 and the second should finish in 1994. Poland has planned a mass privatization of 15% of PEs using holding companies set up by the government, but the legislation has not yet cleared parliament. Both countries plan for the state to retain a 30% interest, with workers getting an additional 10% in Poland. Poland has also successfully sold many enterprises by liquidation (World Economic Research Institute, 1993, see also Mizsei, 1992).

19. Restitution in Czechoslovakia has been interpreted as full recovery of land and property. The legislation for restitution is held up in parliament in Poland (World Economic Research Institute, 1993).

20. Law requires that workers own 10 percent of any company privatized through investment funds (Reuters, 11/27/93).

21. The official figures were LE 3 billion worth of assets for 1991/92, LE 9.1 billion for 93/94 or 12% of the assets of the holding companies (Handoussa, 1993). The government, however, is committed to further privatization by 1996/97. It is not clear, however, that any specific value has been put on the companies to be privatized after 1993/94.

22. The Minister of Public Enterprises, assured labor union leaders that "the government will not make any decision regarding privatization without consulting labor" (Al-Ahram Al-Iktisadi,

12/6/93).

23. According to the Labor Force Sample Survey conducted in 1988, the public sector employed 16.2% of total wage workers and only 7.7% of all workers. The difference is explained by the extensive non-market activities in the agricultural sector. Agriculture accounts for 14.5% of employment of wage-workers but more than 45% of all workers (Al-Qudsi, et al., 1993).

References

Al-Ahram, various issues.

Al-Ahram Al-Iktisadi, various issues.

Al-Qudsi, Sulayman, Ragui Assaad, and Radwan Shaaban, "Labor Markets in the Arab Countries: A Survey", Initiative to Encourage Economic Research in the Middle East and North Africa, First Annual Conference on Development Economics, Cairo, Egypt, June 4-6, 1993

Balassa, Bela, "Hungarian Economic Reform 1968-1982". Banca Naz. Lavoro Quarterly, June, 1983.

Bank of America World Information Service, Country Outlook Report, 5/93

The Banker, July 1993

Banks and Exchanges, (Bank & Tozsde), Budapest, 8/24/93

Boote, Anthony R. and Janos Somogyi, "Economic Reform in Hungary since 1968", Occasional Paper 83, International Monetary Fund, July, 1991.

Brown, Alan A. and Egon Neuberger, "The Traditional Centrally Planned Economy and Its Reform" in Morris Bornstein Comparative Economic systems, Models and Cases, Seventh Edition, Irwin, Illinois, 1994.

Bureau of National Affairs, Inc., "General Developments: Middle East", 9/1/93.

Business International, various issues.

Central Intelligence Agency, Handbook of Economic Statistics: A Reference Guide, Library of Congress, Washington, DC., 1991

Central Statistical Office, Hungarian Statistical Yearbook, 1990, Budapest, 1992.

Clague, Christopher, "From Socialism to Market: changing the Rules of the Game", IRIS working Paper No. 27, 1992.

Clague, Christopher and Gordon C. Rausser, ed., The Emergence of Market Economies in Eastern Europe, Blackwell Publishers, Cambridge, MA, 1992.

Cooter, Robert, "Organization as Property: Economic Analysis of Property Law Applied to Privatization", in Clague and Rausser, eds., op. cit., 1992.

o

Economist Intelligence Unit, various issues.

Epstein, Richard A., "All Quiet on the Eastern Front," The University of Chicago Law Review, 58(2), Spring, 1991.

Fischer, Stanley, "Privatization in Eastern European Transformation", in Clague and Rausser, eds., op.cit., 1992.

Friss, Istvan, "Practical Experiences of the Economic Reform in Hungary", Eastern European Economies, Spring 1973.

Frydman, Roman, Andrzej Rapaczinski, John S. Earle, et. al, The Privatization Process in Central Europe, CEU Privatization Reports, vol. 1, CEU Press, Budapest, London, New York, 1993.

Gray, Cheryl W., Rebecca J. Hanson and Michael Heller, "Hungarian Legal Reform for the Private Sector", The George Washington Journal of International Law and Economics, Vol. 26, No.2, 1992.

Handoussa, Heba, "Egypt's Structural Adjustment Program and Prospects for Recovery" (draft), report prepared for the Workshop on Japanese Economic Cooperation with Developing Countries, IDE, 1-6 December 1992.

........., "The Role of the State: The Case of Egypt", Initiative to Encourage Economic Research in the Middle East and North Africa. First Annual Conference on Development Economies, Cairo, Egypt, June 4-6, 1993.

Handoussa, Heba and Gillian Potter, "Egypt's Informal Sector: Engine of Growth?" Mesa Conference, Portland, Oregon, October 28-31, 1993.

Handoussa, Heba and Nemat Shafik, "The Economics of Peace: The Egyptian Case", paper prepared for a conference on the Economics of Peace in the Middle East, Middle East Institute for Social and Economic Policy in the Middle East, J.F. Kennedy School of Government, Harvard University, Nov. 15-16, 1991.

Ikram, Khalid, Egypt: Economic Management in a Period of Transition, Johns-Hopkins University Press, Baltimore, Maryland, 1980.

International Monetary Fund, International Financial Statistics, Washington, DC, various issues.

International Monetary Fund, Government Financial Statistics, Washington, DC., various issues.

Khalifa, Dahlia, "The Privatization Process: Prospects for Egypt". MA Thesis, The American University in Cairo, Department of Economics, 1992.

Kopint-Datorg, "Economic Trends in Eastern Europe", Vol. 1, No. 3, Springer-Verlag, Wien, New York, 1992.

Kopint-Datorg, "Economic Trends in Eastern Europe", Vol. 2, No. 1, Springer-Verlag, Wien, New York, 1993.

Kornai, Janos, "The Hungarian Reform Process: Visions, Hope and Reality", Journal of Economic Literature, December, 1986.

Kornai, Janos, The Road to a Free Economy: Shifting from a Socialist System: The Example of Hungary, New York, W.W. Norton, 1990.

Kornai, Janos, "The Principles of Privatization in Eastern Europe", De Economist 140, Nr. 2, 1992.

Lipton, David and Jeffery Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland", Brookings Papers on Economic Activity, vol. 1, 1990a.

........, "Privatization in Eastern Europe: The Case of Poland", Brookings Papers on Economic Activity, vol. 1(2), 1990b.

Mabro, Robert, The Egyptian Economy: 1952-1972, Clarendon Press, Oxford, England, 1974.

Magyar Hirlap, Hungarian News, 7/29/93.

MEED, Middle East Economic Digest, various issues.

Ministry of Industry, "Industrial Public Sector: Reform Program and Performance Evaluation, Fiscal Year 1983/84 - 1989/90" (in Arabic), Cairo, Egypt, 1991.

Mizsei, Kalman, "Privatization in Eastern Europe: A Comparative Study of Poland and Hungary", Soviet Studies, 44(2), 1992.

Ministry of Finance, Hungary, "Economic Processes of 1993, 3. Report based on I. quarter information", Budapest, May, 1993.

Mora, M, "The (Pseudo-) Privatization of State-Owned Enterprises (Changes in Organizational and Proprietary Forms, 1987-1990)", Acta Oeconomica, Vol. 43 (1-2), 1991.

MTI (english language Hungarian Press Service), various issues.

Mueller, Dennis C., "Choosing a Constitution for Eastern Europe: Lessons from Public Choice," Journal of Comparative Economics, 15, 1991.

Murrel, Peter, "Can Neoclassical Economics Underpin the Reform of the Centrally-Planned Economies?", Journal of Economic Perspectives, vol. 5, No. 4, Fall 1991.

National Bank of Hungary, Annual Report 1990, Budapest, 1991.

National Bank of Hungary, Annual Report 1992, Budapest, 1993.

National Bank of Hungary, Quarterly Review, Budapest, May, 1991.

Penzugykutato, Reszvenytarsasag, "Jelentesek az Alagutbol" ("Reports from the Tunnel"), Budapest, May, 1993.

Public Sector Information Center, Industrial Public Sector: Reform Program and Performance Evaluation, 1983/84-1989/90, Cairo, 1991.

Rausser, Gordon and Leo Simon, "The Political Economy of Transition in Eastern Europe: Packaging Enterprises for Privatization", in Clague and Rausser, eds. op. cit., 1992.

Reuters, Reuters News Service, Reuters Library Report, Reuters Middle East Reuters Textline Moneyclips, various issues.

Slay, Ben., "Roundtable: Privatization in Eastern Europe", RFE/RL Research Report, Aug.93

Tirole, Jean, "Ownership and Incentives in a Transition Economy," Working Paper Series, Institute for Policy Reform, 1991.

World Bank, Hungary: Economic Development and Reform. Washington, D.C., World Bank, 1984.
World Bank, Development Report, 1992, Washington, D.C. 1992

World Bank, Development Report, 1992, Washington, D.C. 1993

World Economy Research Institute, Poland International Economic Report, 1992/93, Warsaw, 1993.

World Bank, World Debt Tables 1992/93, Washington, D.C., 1993.

Table 1

Production, Population and Per Capita GNP: 1991

	Agricul-ture (%)	Industry (%)	Services (%)	Popula-tion(mil)	GNP/capita US$
Hungary	10	34	55	10.3	2,720
Egypt	18	30	52	53.6	610
Bulgaria	13	50	37	9.0	1,840
Czechoslovakia	8	56	36	15.7	2,470
Poland	18	34	49	38.2	1,790
Romania	19	49	33	23.0	1,390
Austria	3	36	61	7.8	20,140
Portugal	-	-	-	9.9	5,930
Greece	17	27	56	10.3	6,340
West. Germany	2	39	59	80.1[a]	23,650
India	31	27	41	866.5	330
Pakistan	26	26	49	115.8	400
Indonesia	19	41	39	181.3	610
Phillipines	21	34	44	62.9	730
Morocco	19	31	50	25.7	1030
Syria	30	23	47	12.5	1160
Tunisia	18	32	50	8.2	1500
Thailand	12	39	49	57.2	1570
Turkey	18	34	49	57.3	1780
Algeria	14	50	36	25.7	1980

Source: 1993 World Bank Development Report.
[a]Population for united Germany

Table 2

Size of Government, 1989

	General Gov't Total Rev./GDP	General Gov't Tax Rev./GDP	General Gov't Expenditure-Repaymets/GDP
Hungary	61.3	50.6	63.8
Egypt	34.9	21.2	42.9
Czechoslovakia	70.3	53.7	74.1
Poland	46.9	43.6	48.2
Austria	47.0	39.7	50.5
Portugal[a]	35.3	32.1	39.3
West. Germany	45.9	39.6	46.4
Israel[a]	44.7	37.8	60.3

Source: Government Financial Statistics, 1991
[a]1988

Table 3a

Eastern European External Debt, 1990-92

$ Billion

	Commercial	Official	BIS[a]/IMF	Total 1990	Total 1991	Total 1992
Hungary	15.9	3.3	1.8	21.3	22.7	22.4
Bulgaria	9.3	1.3	0.0	10.6	11.4	12.9
Czechoslovakia	6.1	2.0	0.0	8.1	9.4	10.0
Poland	15.7	30.9	NA	46.6	48.4	45.5
Romania[b]	0.2	0.2	0.0	0.4	1.6	2.9

<u>Sources</u>: CIA, <u>Handbook of Economic Statistics</u>, 1991, Kopint-Datorg, 1993
[a]BIS: Bank for International Settlements.
[b]Romainian debt figures are for 1989.

Table 3b

Egyptian External Debt, 1988-92

$ Billion

	Private non-guaranteed	Public and Publically guaranteed	Long Term Debt	Total Debt Stock	Total Debt Stock per captita
1988	1.1	34.4	45.5	52.2	1041
1989	1.1	42.5	43.6	51.5	994
1990	1.0	34.3	35.3	40.1	757
1991	1.0	36.0	37.0	40.6	742
1992[a]				41.5	

Sources: International Financial Statistics, 1993, World Debt Tables, 1992/93,
[a]Central Bank of Egypt in Bank of America World Information Services, 1993.

Table 4a

Hungary Macro Data

	GDP real % change	Industrial Production % change	CPI % change	Unemployment %	Gross Debt Mil. $
1981	3.0	2.8	4.4		
1982	2.9	3.4	6.7		10,216
1983	0.7	0.8	7.3		10,745
1984	2.8	2.7	8.4		10,983
1985	-0.3	1.9	6.9		13,955
1986	1.4	0.7	5.3		16,907
1987	4.1	1.9	8.6	0.1	19,584
1988	0.0	0.0	15.9	0.2	19,602
1989	0.3	-1.0	17.1	0.6	20,390
1990	-3.2	-9.6	28.9	1.7	21,270
1991	-10.0	-14.1	35.0	8.7	22,700
1992	-5.0	-10.0	23.6	12.3	22,400
1993[a]	-3-0.0	1.6[b]	22.9	12.6[c]	

Sources: Ministry of Finance, 1993, National Bank of Hungary, 1991, Central Statistical Office in Banks and Exchanges, 8/24/93

[a] First half of 1993

[b] 2.4% seasonally adjusted

[c] Unemployment peaked at 13.1% in February 1993 (FBIS, 7/26/93)

Table 4b

Egypt: Macro Data

	GDP real % change	CPI % change	Unemploy-ment %	Population % change	Gross Debt $ Billion
1980					20.9
1985	3.9	12.1		2.9	42.1
1986	9.1	23.9		2.8	46.3
1987	6.4	19.7		2.7	52.0
1988	5.6	17.6		2.4	52.2
1989	4.8	21.3		2.4	51.5
1990	5.9	16.8	8.9	2.3	40.1
1991	1.0	19.8	10.5	2.3	40.6
1992	4.5	13.6	14.0	2.4	41.5

Sources: International Financial Statistics, 1993, September, 1993, World Debt Tables 1992/93, National Trade Data Bank: Market Reports, 7/1/93, Economist Intelligence Unit, 8/1/93.

Table 5a

Hungarian Balance of Payments, 1988-1992
$ Billion

	1987	1988	1989	1990	1991	1992
Exports	5,050	5,505	6,446	6,346	9,258	10,028
Imports	5,014	5,016	5,909	5,998	9,069	10,076
Trade Balance	36	489	537	348	189	(48)
Frieght, net		(300)	(309)	(164)	(80)	(116)
Travel, net	368	41	(349)	345	560	590
Gov't expenditures, net	(52)	(76)	(57)	17	63	78
Investment income, net	(987)	(1,077)	(1,387)	(1,414)	(1,331)	(1,216)
Direct investment income, net	0	0	0	(24)	(32)	(45)
Unrequited transfers, net	102	114	126	727	860	859
Services and other, net	(343)	26	2	292	38	222
Current Acct. Balance	(876)	807	(1,437)	127	267	324
Med. and Long term Capital	756	555	1,411	204	3,070	432
Short term Capital	(778)	288	(44)	(893)	(617)	5
Overall Balance	(898)	36	(70)	(562)	2,720	761

Sources: National Bank of Hungary, Quarterly Report, 1991, National Bank of Hungary, 1993.

Table 5b

Egyptian Balance of Payments, 1975-1992
$ Billion

	1975	87/88	88/89	89/90	90/91	91/92
Exports	1.88	3.27	2.91	3.39	3.90	3.6
Imports	4.61	9.84	10.20	10.63	11.40	11.0
Trade Balance	(2.73)	(6.57)	(7.29)	(7.24)	(7.50)	(7.4)
Services (net)	0.22	1.92	0.98	0.94	0.50	3.4
Receipts	1.08	4.91	5.70	6.13	6.70	7.6
Suez Canal	0.09	1.27	1.81	1.47	1.66	2.0
Tourism	0.33	0.89	0.90	1.07	0.92	1.3
Invest inc.		0.90	1.10	1.16		
Payments	0.56	2.99	4.72	5.19	6.20	4.2
Interest		2.43	2.54	2.84	3.70	1.7
Workers Remittances	0.37	3.38	3.52	3.74	3.80	5.2
Official Transfers	0.37	0.70	0.76	1.11	4.80	1.5
Current Account Balance	(2.43)	(1.99)	(2.50)	(1.93)	0.60	2.1
Overall Balance		(1.87)	(1.72)	(1.21)	2.00	5.5

Sources: Handoussa, Handoussa(1992), Central Bank of Egypt figures, MEED, 6/4/93.

Table 6

Number of Organizations, Hungary

	State Ents.	Limited Liab.Cos	Joint Stock Cos	Coops	Associa-tions	Unincorp. Joint Ventures
1985	2165	62	0	4085	251	308
1986	2285	74	0	4059	276	337
1987	2352	137	70	3995	302	371
1988	2377	451	116	3772	309	387
1989	2399	4485	307	3843	327	432
1990	2353	18317	646	3977	237	438
1991	2267	36420	1005	4123	188	419
1992	2832	55683[b]		6491		
1993[a]	2657	60354[b]		6614		

	Non-inc. Companies[c]	Individ. Entrepreneurs[c]
1988	29,657	290,900
1989	24,143	320,600
1990	34,095	393,500
1991	52,136	504,000
1992	70,600	612,000

Source: Frydman, Rapaczinski and Earle (1992), for 1988-91, Ministry of Finance (1993), National Bank of Hungary (1993)
[a]First half of 1993
[b]Combined joint stock and limited Liability Companies
[c]The National Bank figures are higher than those of the Ministry of Finance: (59022, 488,762 for 1992).

Table 7

Hungarian Trade by Region
Percent of Total Trade, Ft. Bil.

	IMPORTS				EXPORTS			
	East Europe	Devel-oped	Ofwhich EC[a]	Devel-oping	East Europe	Devel-oped	Ofwhich EC[a]	Devel-oping
1981	42	52	24	7	48	41	17	12
1982	45	50	23	5	49	38	16	13
1983	46	49	21	5	48	39	16	13
1984	45	50	22	5	46	42	16	12
1985	44	51	22	5	48	42	16	11
1986	44	50	23	5	49	43	17	8
1987	42	53	25	5	46	46	20	8
1988	38	56	26	7	40	51	23	9
1989	33	61	29	6	36	56	25	8
1990	28	62	31	0	28	64	32	8
1991	22	70	41	8	19	72	46	8
1992	19	67	40	4	20	70	50	5

Sources: Hungarian Statistical Yearbook, 1990, Ministry of Finance, 1993
[a]EC includes Greece from 1981, Spain and Portugal from 1986

Table 8

Foreign Direct Investment

Foreign Direct Investment, Hungary and Egypt
$ Billion

Hungary	1989:	.187	Egypt	1989:	1.228
	1990:	.311		1990:	0.722
	1991:	1.459		1991:	0.191
	1992:	1.471		1992:	0.455

Source: Hungary: National Bank of Hungary, 1993, Egypt International Financial Statistics, 1992.

Accumulated Foreign Investment in Eastern Europe
1992, $ Billion

Hungary	5.0
Czech Repub.	2.5
Poland	1.5
Romania	0.6
Bulgaria	0.5
Slovakia	0.25
Total	10.35

Source: Reports from the Tunnel, 1993

Table 9

Public Sector in Egypt

	MOI[a] (114 firms)	Public Sector, excluding financial (371 firms)		Public Sector including financial (399 firms)	
	Employment (000)	Employment (000)	Value Added/GDP	Employment (000)	Value Added/GDP
FY 1986	589	1239	17%	1317	25%
FY 1987	573	1235	16%	1314	22%
FY 1988	564	1221	16%	1301	23%
FY 1989	564	1232	16%	1313	23%
FY 1990	563	1245	14%	1327	21%

Sources: Ministry of Industry, 1991, Public Sector Information Center, 1991, International Financial Statistics, 1992.
[a]Minitry of Industry

ECONOMIC
RESEARCH
FORUM
FOR THE ARAB COUNTRIES, IRAN & TURKEY

7 Boulos Hanna St., Dokki, Cairo, Egypt
Tel: (202) 700810, Fax: (202) 3616042, E Mail: ERF @ vrit 01 eg.