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# ***JPRS Report***

# **East Europe**

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# East Europe

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CONTENTS

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## CZECHOSLOVAKIA

Havel on Political Principles, Intellectuals' Role [SMENA 14 Nov] .....	1
Duray Rejects Meciar's Proposal to Opposition [UJ SZO 11 Nov] .....	3
Czech Overgenerosity to Slovaks Deemed Unwise .....	4
Prime Minister Strasky's View [CESKY DENIK 25 Nov] .....	4
CSSD Chairman's View [CESKY DENIK 25 Nov] .....	4
Friendship Cannot Be Bought [LIDOVE NOVINY 23 Nov] .....	4
Destabilization of Political Parties Predicted [SLOBODNY PIATOK 20 Nov] .....	4
Business Indebtedness, Privatization Alternatives [EKONOM 23-29 Oct] .....	5
Reception of Budapest Satellite TV in Slovakia [UJ SZO 11 Nov] .....	8

## HUNGARY

Enache Views Cluj Declaration in Budapest Weekly [BESZELO 28 Nov] .....	9
Difficulties of Visegrad Cooperation Discussed [KOZTARSASAG 20 Nov] .....	10
Industry Minister on Privatization, Bankruptcies [FIGYELO 5 Nov] .....	12
State Accounting Office Views 1993 Budget .....	15
ASZ Report [FIGYELO 26 Nov] .....	15
ASZ Audit Approach Questioned [FIGYELO 26 Nov] .....	16
Finance Ministry on MSZP Critique of Budget [FIGYELO 12 Nov] .....	17
Indirect Nationalization of Banks Mentioned [FIGYELO 5 Nov] .....	19
Investment, Development Bank Analyzed [HETI VILAGGAZDASAG 14 Nov] .....	19
Property Policy Guidelines 1992, 1993 Compared [HETI VILAGGAZDASAG 7 Nov] .....	21
Jan-Sep Industrial Production Report [NAPI GAZDASAG, UZLET, VILAG, POLITIKA 25 Nov] .....	22
State Enterprise Management Buy-Outs Discussed [FIGYELO 5 Nov] .....	22
Mandatory Declaration of Assets Discussed [FIGYELO 5 Nov] .....	23
Legislation Aims To Rescue Mining Industry [HETI MAGYARORSZAG 13 Nov] .....	26
Environmental Impact of Energy Policy Assessed [FIGYELO 5 Nov] .....	27

## POLAND

Components of 1993 Budget Draft Outlined [GAZETA WYBORCZA 20 Nov] .....	29
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**Havel on Political Principles, Intellectuals' Role**  
*93CH0125A Bratislava SMENA in Slovak 14 Nov 92*  
p 5

[Interview with Vaclav Havel, former president of the CSFR, by Robert Kotian: "Nothing Is Lost in Advance"]

[Text] *To get to Vaclav Havel these days is not a simple matter, and you necessarily get the feeling of being one of many waiting in line. Unfortunately, the half-hour allotted for the interview did not allow us to go into matters in greater depth, to argue where argument was needed, to better confirm the feeling of common understanding of matters generally as well as of specific insights. In any case, it is inspiring to come face to face with a man who is increasingly more solidly rooted in political realities. It will certainly be interesting to observe his further shift from the Power of the Powerless—a philosopher on the throne does not often appear in human history.*

[Kotian] I can imagine that you find these interviews tedious and that you are sick and tired of them. Nevertheless—are you not sick and tired of politics?

[Havel] To tell you the truth, I think that one of the mistakes I made as president was that I relied too much on the belief that the strength of arguments and the cogency of a good thing are always sufficient to persuade. I somewhat disregarded the fact that politicians are also human beings with a variety of idiosyncrasies and qualities, that they have their own ambitions, sympathies, and antipathies, and I did not pay enough attention to that. I would not say that I was sick and tired of those politicians, or that I did not find being in contact with them enjoyable. Even so, to put it a bit more delicately, I would say that dealing with them was sometimes more difficult than I expected.

[Kotian] Is the period of "apolitical politics," about which Vaclav Belohradsky also speaks, behind you? Did philosopher and intellectual Havel become Havel the politician?

[Havel] First of all, about the term apolitical politics—it is now becoming something of a specific insult. Whenever I or someone else does something wrong, there is immediately talk about an apolitical politician, which actually means a bad politician. I used it many years ago in one or two essays, I used it situationally, as I use all such terms, in a concrete linguistic and literary context. I certainly was not making this term into a doctrine or a category which was to have a specific ideological meaning. That is by way of an introduction—I do not think that I "underwent" some special inner change; the concept of politics which I have, values which I profess, the kind of emphasis which I tend to stress, all that I still abide by and will try to abide by in the future. But I shall probably have to learn how to promote my views, what form and manner to use, I shall have to learn to be patient and diplomatic; but that is a matter of form, not of substance. As far as the substance of my concept of politics is concerned, I did not change my views or

myself, and neither did I have a reason to do so. I would not call this concept of politics apolitical politics, that is a simplifying transference of the meaning of a word from a specific context into another context.

[Kotian] The inherent nature of an intellectual is usually opposition to power. You have been very successful in the position of an intellectual and critic of power, November 1989 attests to that quite emphatically. In the position of the Czechoslovak president—I do not dare say to what extent you were as successful as you were as a dissident. Don't you still sometimes find yourself in a dilemma—to remain an independent intellectual or return to politics in a specific function? Don't you still feel this dilemma within yourself?

[Havel] Others will have to judge whether I was or was not successful in my function as federal president. Personally, I do not feel that I was all that unsuccessful. I achieved many things, and together with others I succeeded in imbuing the first days and months of our really independent existence as a state with a certain spirit that met with success abroad. Of course, in many things I was unsuccessful, but that happens not only to politicians but to independent intellectuals as well. As far as that dilemma is concerned, I have been trying and would like to continue doing so, to not only not have the perspective of an independent intellectual, which I became used to, in conflict with the performance of a political function, but, on the contrary, enhance it. I rather take it as an invitation to try and bring into politics other perspectives and emphases, other starting points and horizons, another kind of responsibility. What is at issue is truth. It does not matter whether that truth works against power or to its benefit. From that point of view it seems to me that there should not be any fundamental conflict between being a so-called intellectual and being active in practical politics. I would in fact say that the very serious state of today's world is as if calling on intellectuals to try and become involved in practical politics to a greater extent and in greater numbers.

[Kotian] People who were close to you, for example P. Pithart or J. Dienstbier, are at the moment out. Charter 77 ended its activity. Have you not become a lonely runner?

[Havel] Those things must be differentiated. Charter 77 as a structure ended its historic role. Its make up and type of work, its concept corresponded to a special model of public conduct which was forced by totalitarian conditions and which responded to those conditions. When the totalitarian conditions became a thing of the past, the model of this work also became outdated. But that does not mean that the ideals of the Charter became outdated, these continue to be alive and relevant, and that is why in the closing document we called on all signatories of the Charter to continue working for those ideals. The moment will hardly come when it will be possible to say that human rights are comprehensively adhered to and respected everywhere, that there is no more reason to work on their behalf. We shall never live to see the day when we shall be able to say that the idea of tolerance, of

consensus, of responsibility for common matters, of involvement in civic affairs even when it does not bring personal benefits, has achieved total victory. All these are things with enduring validity and in this sense it cannot be said that the Charter ceased to exist as a synonym for a complex of ideals. It ceased to exist as a specific social structure. I would distinguish the Charter from the Civic Movement [OH], in which there were many of my friends and people who were involved in the opposition and Charter 77, and later in the Civic Forum. For various reasons OH was not a convincing party, it was unable to create for itself a profile of a regular political party, it did not have enough will for a victory in the elections, and that is why it lost in these elections. But that does not mean that some personalities from OH will disappear from the stage. I believe that many will return to life in politics or that some of them have always stayed in it.

[Kotian] In the television program "What the Week Brought" your good friend Frantisek Miklosko expressed his opinion about certain moral compromises between the Civic Democratic Party [ODS] and the Movement for Democratic Slovakia [HZDS], which according to him and also to me manifested themselves in the recall of certain people, for example Ladislav Kovac from Paris, which he did not consider to be a fortunate beginning to the building of independent Czech and Slovak statehoods. Your reaction was considerably different from Klaus' reaction. Are you not concerned that in view of the greater complexity of your thinking you will not avoid a confrontation with Vaclav Klaus, and as a consequence of such confrontation experience a dilemma between gaining stature and maintaining your own identity?

[Havel] ODS, which won in the elections in the Czech Republic and conducted the main political negotiations with HZDS, found itself in a situation where it had responsibility and had to weigh its conduct literally on a chemist's scale. Politics always brings compromises, and to find the proper limits of the compromise which is still possible is not always easy. ODS was aware that its priority is to find that level of negotiations with HZDS which would ensure a calm and civilized separation of the two republics. ODS knew that the manner in which we part is very important, because it predetermines the character of relations between our societies and nations for many years to come. It had to weigh whether to accept this or that compromise in the interest of a harmonious course of the negotiations, or whether to resist on certain matters and risk that the negotiations will break down and the separation will not be civilized. It seem to me that on certain matters ODS should not have given in.

[Kotian] There is, after all, a difference between what kind of relations will remain between the political representatives and what kind will remain between the nations and the people, who are very close to each other. In Slovakia today pressure really is developing on intellectuals, the Trnava University, and the media. I do not know to what extent it will leave the Czechs indifferent.

[Havel] Personally I do not feel indifferent about it, and I will not be silent if I see signs of authoritarian or less democratic methods. But on the other hand, I do not think that we would serve Slovak society and its self-confidence well if it had to be again us, the Czechs, who would somehow be rescuing the Slovaks. Slovak society had an increasingly harder time putting up with the sermonizing and paternalistic stance of the stronger one who helps and takes care of it, it wanted to stand on its own feet, make its own decisions, and if today, when various problematic things are taking place in Slovakia, it were to be again the Czechs who would be the main ones who try to resist them, and thus in effect be helping the Slovaks, it could come back to us Czechs in 10 years' time in the form of new resentment, the resentment of one who is being helped toward the one who helps him. This is the specific, very delicate relationship between Czechs and Slovaks in which we are making our moves, and I therefore think that we must proceed very sensitively and carefully. We cannot remain silent about everything or ignore it, and we must not be indifferent to what is happening in the rest of the world, and doubly so we cannot be indifferent what is happening in a country that is so close, a neighbor. But at the same time we must consider well what we say and think through the steps we take, so that we would not unwittingly create new embryos or sow seeds of future new resentments.

[Kotian] In that respect, I have a feeling that a kind of shift in time can be detected in Slovakia. I cannot even rid myself of the feeling that in Slovakia during these months there are conditions in the making that in the Czech lands led to the creation of Charter 77. Let's better talk about something else. In the speech you gave in Paris on the phenomenon of waiting, you mentioned two kinds. One of them was waiting for Godot. Don't you have the feeling that waiting for Godot is, all in all, better than, for example, waiting for Meciar or the Leader?

[Havel] I even said that a universal savior, such as was for example communism, is precisely the conjured-up and false Godot, because the real Godot never comes. It is only a substitute Godot, and it is the wrong kind of hope. I think that if in Slovakia, which for the first time is really finding her own statehood, which is getting ready to stand on her own feet for the first time in history, there are appearing certain authoritarian elements in political life or tendencies toward a leader, it is more than understandable. We can observe the same thing in other nations that are becoming emancipated.

[Kotian] Are you also thinking about the Czech nation?

[Havel] That is a somewhat different case. The Czechs used to think of Czechoslovakia as their state, they are not just now finding their statehood. Moreover, in our historical consciousness lives the long history of the lands of the Czech Crown. In that respect, our situation is different. To a certain extent in those who are smaller, who were being suppressed, or at least felt that way, it is on the whole understandable that there arises an inclination toward someone strong who knows how to pound the table with his fist and thus make up for their feeling

of being neglected. This is something that exists in Slovakia, but I do not think that Slovakia is threatened with loss of liberty or loss of democracy. Slovaks must nurture their liberty and democracy on their own, protect them, guard them, sacrifice something for them, invest something in them, and they certainly do not have to be afraid that they will be isolated. They will receive support also from other countries, but first they must do something themselves. I do not consider the situation in Slovakia to be a situation that is a fundamental threat to liberty and democracy. In my opinion it is an open situation, in which society is searching for its identity, when actually decision is being made about the form of political life and statehood, when much is at stake but nothing is lost in advance.

### **Duray Rejects Meciar's Proposal to Opposition**

*93CH0140B Bratislava UJ SZO in Hungarian  
11 Nov 92 p 4*

[Unattributed interview with Miklos Duray, president of the Coexistence Political Movement; place and date not given: "Miklos Duray on the Prime Minister's Request: Unacceptable"]

[Text] The Thursday meeting between Prime Minister Meciar and the leading representatives of the parties in parliament took an unexpected turn: The prime minister asked the parties of the opposition for a truce. We asked Miklos Duray, president of Coexistence, about this and the other issues dealt with during the meeting.

[UJ SZO] Do you think it is conceivable for the opposition in a working democracy to temporarily suspend its position of criticism towards the government?

[Duray] In a democracy everything is conceivable if there is a consensus between the parties. However, in my opinion, the request of the Meciar government not to engage in any kind of political discussion until the middle of January and, in fact, announce a political moratorium, is unacceptable. We also have to make a political decision on this question. Based on what happened previously, I think that Coexistence can hardly comply with the request. The government rejected our demands, and this does not allow us to treat this government with a lot of tolerance. This includes the most recent event, the removal of bilingual signs with the names of communities.

[UJ SZO] This question came up at the Thursday meeting as well. Was a decision made?

[Duray] It only came up as a round-table topic, and Meciar did not react to it. Some, especially from the DBP [not identified further], thought that in view of the current situation in Slovakia, the removal of the signs ought to be stopped for the time being. However, everyone rejected the notion that the removal was illegal.

[UJ SZO] In the opinion of Coexistence, what would be an acceptable solution to the problem of representatives to the Federal Assembly?

[Duray] Clearly, our point of departure is the principle of democracy. We can only imagine the country's dissolution in a democratic manner. Every other way that gets around a referendum is undemocratic. This referendum would have the right to suspend the mandates of representatives to the federal parliament. In our opinion, the most acceptable solution would be to call new elections which could, to a certain extent, iron out the anti-democratic nature of dissolving the Federation. In the current political situation this is out of the question, so we have to find a different solution. In my opinion, the categorical standpoint taken by the party of Prokes and Meciar, namely that those who demand a democratic mechanism for the new elections destroy Slovakia's international reputation, is a strange assessment of the situation. In the past one or two years, the new states established in Europe were created by calling an election.

[UJ SZO] Did you talk about a referendum of ratification?

[Duray] The prime minister suggested that a referendum be held about the 16 agreements between his party and that of Klaus. Every party rejected this suggestion, which is correct in my opinion. Namely, this referendum would transfer the responsibility, which the DSZM [not identified further] and the SZNP [Slovak National Party, SNS in Slovakian] took on themselves, onto the people who were not asked what the fate of this country should be.

[UJ SZO] The European Charta on regional and minority languages was submitted recently for signature to the European Council in Strasbourg. Czechoslovakia did not sign it. An official of the Slovakian Ministry of Foreign Affairs offered the justification that by signing it, they would assume rights and responsibilities, which would require the modification of laws in the area of education and courts of law. What is your opinion on this matter?

[Duray] The fact of the matter is that the Slovakian Government is in opposition to the Charta. If Czechoslovakia signs it and Slovakia is a successor state to Czechoslovakia, then Slovakia will automatically have to modify its constitution. Slovakian Government policy has a cynical attitude towards international politics. On the one hand, it constantly talks about how we want to be integrated into international systems of cooperation, but at the same time it does not want to honor principles which are accepted in these structures.

[UJ SZO] Is this an isolated case?

[Duray] In the course of the year we have witnessed that Czechoslovakia failed to sign very important documents. One of them is the Helsinki convention, which concerns stopping activities which pollute and destroy the environment, and which reach beyond the borders; according to this convention, the construction at Bos [Gabcikovo] would have had to be stopped. By the same token, they did not sign the document of the Rio conference on environmental protection, either.

**Czech Overgenerosity to Slovaks Deemed Unwise****Prime Minister Strasky's View***93CH0158A Prague CESKY DENIK in Czech  
25 Nov 92 p 2*

[Article by (frk): "Prime Minister Strasky's Answer to CESKY DENIK"]

[Text] [CESKY DENIK] Do you consider the Slovak demand to divide the real estate owned by the Federation in the ratio 2:1 acceptable for the Czech side?

[Strasky] The answer is simple: I consider it unacceptable. But I must say why. One reason is legalistic: Such a solution is at variance with the recently passed law on the division of the federal property. The second reason should explain the logic of the Czech position: The division of the federal property between the republics in several steps has been in progress for the past two years—the division of the transportation and communication properties is just now under way. It is being divided basically according to the territorial principle. We are negotiating about the division of property that was left to the Federation after the implementation (division of property) of the last law on power-sharing of October 1992. The less of it there is, the larger the share of the buildings of the central federal agencies—and there is more of those in Prague and the Czech lands than in Bratislava and Slovakia. Without wanting to abuse the numbers in the roster of federal property, the buildings (structures) comprise one-fifth of the property that remains in the Federation. According to the territorial principle, three-fourths of them are in the Czech lands and one-fourth in Slovakia, that is, 3:1. But, for example, federal land (also real estate) in the Czech lands and in Slovakia are in the 3:2 ratio. Enough. If logic and broad-mindedness do not prevail over the attempts at skimming the cream, the division of the property will take longer than necessary. Both sides may suffer losses as a result, but there is more federal property in the Czech lands than in Slovakia.

**CSSD Chairman's View***93CH0158B Prague CESKY DENIK in Czech  
25 Nov 92 p 2*

[Article by (frk): "J. Horak on Division of Property"]

[Text] According to Jiri Horak, the Czech Republic cannot accede to a division of the federal real estate in the 2:1 ratio. As the CSSD [Czechoslovak Social Democracy] chairman explained it to CESKY DENIK, the territorial principle was used already for the delimitation of federal property to the republics within the framework of the law on power-sharing in 1990. Slovakia at that time rejected the Czech argument that many enterprises and other properties on the territory of the Slovak Republic were built with federal money. "It is therefore more than passing strange that Slovakia now wants to push through the principle of dividing real estate in the 2:1 ratio. In no way can the Czech side accede to two sets of rules," concluded J. Horak.

**Friendship Cannot Be Bought***93CH0158C Prague LIDOVE NOVINY in Czech  
23 Nov 92 p 1*

[Editorial by Karel Kriz: "We Did Not Lose the War"]

[Text] One subject for discussion in today's Bratislava meeting of the presidiums of the Czech and Slovak Governments is to once again be property division. The basic principles of the already passed law must be given clear contours in the form of implementing instructions. In this connection, the Slovak side is again presenting demands that take one's breath away. No longer at issue is just the principle 2:1. Vladimir Meciar put on the table proposals, which even exceed it (gold), which challenge the territorial principle (federal buildings constructed after 1918), and which do not take into consideration the real length of the railway network in both republics (3:1). It means nothing less than that after the division the Czech Republic would have to pay considerable sums of money, a kind of "reparations," which would make the division of the property from the material point of view look even more inequitable and absurd.

The Czech Republic did not lose any war. Nevertheless, it is quite possible, and even probable that today, Vaclav Klaus will accede to further concessions. A good reason for thinking that is the fact that the Civic Democratic Party (and specifically the prime minister of the Czech Government) is threatened with the loss of what it wanted to buy from the very beginning: peaceful division, good relations, and cooperation in the future. If today Meciar's pressure is not met with compliance he will (again) threaten a crisis, and such a situation would throw into question, or even delegitimize, the previous far-reaching concessions already made by the Czech side.

Citizens will constantly be comparing the developments in both republics even in the future, and the Slovak establishment will therefore probably try to look at Prague as an enemy, rather than a friend. I do not want to be a prophet of gloom and doom, but if the Slovak State is not to stop making sense before long, its government could hardly want to cultivate good relations with the Czechs and lead its people in that direction. After all, in his time, not even Masaryk made much of that kind of effort vis-a-vis Vienna.

Today, when Vladimir Meciar presents his demands, he will certainly do so again without batting an eye. Will Vaclav Klaus continue to insist that friendship can be bought?

**Destabilization of Political Parties Predicted***93CH0150A Bratislava SLOBODNY PIATOK in Slovak  
20 Nov 92 p 3*

[Commentary by Jan Fuele: "Politics of the Breakup"]

[Text] It is not usually the custom to reveal the point of an article right at the beginning, but it is much less honorable to draw the reader in with the deceptive idea that only at the conclusion will he find out what the author wanted to say. So this time I will offer those lines

right in the introduction, which I originally wanted to leave until the conclusion: The breakup of the joint state will also mean the breakup of our current political scene. Even our eternal reliance on the results of the upcoming parliamentary elections is showing more and more new fault lines. We have before us not only those problems about which we speak so often—putting together our own currency, army, and representation offices abroad—but finally also putting together the kind of political scene that is comparable with the surrounding countries. Those people who in one way or another have contributed to the breakup of the federation have also put their own destruction in motion.

There is still a striking degree to which our political scene has not yet settle accounts, even three years after November 1989. Everyone who tries to place political entities on one side or the other of the political spectrum almost inevitably fails in his attempts at "pigeonholing" them. As he does not have this capability, he can expect immediate criticism from those people who, for a change, would rather doubt others than themselves. But it is not just an error by the authors of the definitions. Not even one of the current political parties or movements yet has its own permanent spot in the impermanent political spectrum. This is probably the first lesson to be learned by the authors of the definitions and their critics.

The breakup of what is currently trying to pass for a political scene can in the following months be for Slovakia on the one hand an important and positive step, but on the other hand also a very risky step. At a time when many things will not be functioning here because so far they have not had the time and place to learn how to function, the political scene is also taking several blows. The provisional groupings of parties and movements, which are destroying the Federation will have to change their system of working if they seriously want to participate in building up the Slovak Republic. But are they capable of it?

Just a few days ago, representatives of the SDL [Party of the Democratic Left] began discussions with the parliamentary political parties. There was nothing exceptional about this, except for at least two circumstances. This was the first meeting of this kind since the parliamentary elections and the HZDS [Movement for a Democratic Slovakia] representatives showed no interest in the meeting. We have already become very used to the idea that the communique from such a meeting may differ greatly from the written or tape recorded minutes. But in little Slovakia, where moreover it is not always clear "who is working for whom," something always comes out here or there. So, even in the broader context of Slovak political developments, the contents of the discussions are not surprising. And what is the context? In April 1991, when the crisis in the Slovak parliament came to a head in connection with the recall of Vladimir Meciar from the office of Slovak prime minister, the SDL deputies proposed the creation of a government in which all of the parliamentary parties and movements at

that time would be represented. Today, at a time of a monochromatic government (I apologize to Ludovit Cernak), the SDL leadership is abandoning that idea. The second strongest entity on the Slovak political scene probably does not find the role of observer a pleasant one and it is one in which, consequently, responsibility will be borne in accounting for the breakup of the Federation and the first mistakes of an independent Slovakia. It is just in those conversations and the subsequent political calculations that the key to the further development of the Slovak political scene is hidden.

The timing of this step was not accidental on the part of the SDL. Certain disagreements of opinion have come up between Vladimir Meciar and Milan Knazek, which can be, but also do not have to be, suppressed successfully. Ministers and deputies who have announced the breakup of the federation, but do not want to see their political careers end on the day that it disappears, are coming from Prague. The SNS [Slovak National Party] is looking for new allies, as well as for their own political orientation; other people have already carried out their political program and they will now have to come up with a new one. There are no nondenominational rightists. The social democrats have little influence and so far are only loaning the SDL their international contacts and the "Weissists" are trying to take revenge on them by giving up part of their domestic popularity. But nobody knows what will happen to them in the upcoming months. Probably no one other than the Christian Democrats will decide it. They now have replaced the SDL in the role of the balance indicator on the scales. Jan Carnogursky is a pragmatist, but even pragmatists make errors. Will he only look from afar on the conflict between the HZDS and the SDL, which is now inevitable and wait until both the superpowers exhaust themselves in order to pick up the power right off the pavement? Or will he be able to join together with those who in his eyes symbolize mainly the red stars, in the interest of his own little star in the European sky? This apparently simple scheme can very rapidly decide on the political start of the Slovak Republic. The prematurely revealed point of an article can also have one disadvantage: The reader does not have to concur with the point at the conclusion. Perhaps this is also the case here. But before we decide, let us take a look at still another circumstance; in the time that remains before the breakup of the Federation, we will have to catch up on things in a matter of hours for which we previously had years. And moreover, we must do this in a way so that it will not take years to fix.

**Business Indebtedness, Privatization Alternatives**  
*93CH0152B Prague EKONOM in Czech 23-29 Oct 92*  
*pp 16-17*

[Article by Eva Klvacova: "Business Indebtedness and the Alternatives of Privatization"]

[Text] *According to data provided by the Czech Statistical Office, the late payment of claims (that is to say, claims that were not paid within the agreed-upon time limit) by*

domestic customers amounted to approximately 50 billion korunas [Kcs] in the Czech Republic and Kcs18 billion in the Slovak Republic at the beginning of 1991. Toward the end of 1991, those claims increased by Kcs110 billion in the Czech Republic and reached a total of Kcs160 billion. Developments in the Slovak Republic were even less favorable. The increase in late payments for a single year amounted to Kcs53 billion—in other words, more than triple the starting level—and the overall volume of late payments reached virtually Kcs72 billion. In all of the CSFR, the volume of late payments involving domestic customers in a single year rose from Kcs78 billion to Kcs232 billion.

Not even foreign customers had a favorable record with respect to late payments. In the Czech Republic, those payments rose from not quite Kcs14 billion to Kcs30 billion, and, in the Slovak Republic, from Kcs1 billion to virtually Kcs8 billion.

Late obligations—that is, obligations charged against noninvestment domestic suppliers that have thus far not been paid and have exceeded the agreed-upon time limit for payment—registered a similar trend. In the Czech Republic, they rose from not quite Kcs34 billion to Kcs109 billion. In other words, they increased by approximately Kcs76 billion. In the Slovak Republic, they rose from Kcs16 billion to Kcs61 billion.

In the first half of 1992, the development of business indebtedness took on a somewhat less dramatic form; nevertheless, the rising trend continued. As of 30 June, late payments by domestic customers amounted to Kcs172 billion, according to data provided by the Czech Statistical Office, and late payments by foreign customers amounted to Kcs35 billion; late obligations amounted to Kcs110 billion. Data for the Slovak Republic are hitherto unknown. Only data for the first quarter of 1992 have been published. Toward the end of the first quarter, late payments by domestic customers amounted to virtually Kcs73 billion, and those by foreign customers amounted to Kcs10 billion. Late obligations amounted to Kcs62 billion. In other words, it is clear that preliminary estimates regarding the extent of business indebtedness, which are running at Kcs250 billion, are not pessimistic estimates but, rather, are realistic and indicate that, unless a rapid turnaround occurs in the trend of this development, this indebtedness will reach the same level as the level of savings set aside by the population—approximately Kcs300 billion.

#### The Structure of Indebtedness

The data shown in Table 1 provide information on the distribution of indebtedness according to the forms of ownership. It persuasively documents the fact that virtually nine-tenths of all indebtedness is concentrated in state enterprises, whereas indebtedness in the private sector is relatively very low.

**Table 1**  
**Late Claims and Obligations According to**  
**Forms of Ownership as of 31 June 1992**  
**(in million Kcs)**

Item	Late Invoice Payments		Late Obligations
	Domestic	Foreign	
Territory of Czech Republic (total)	172,065	35,178	109,596
Including following organizations:			
State	152,086	33,569	97,805
Cooperative	10,013	244	5,921
Community	12	0	4
International	3,226	844	1,104
Private	253	17	179
Associated	9	0	4
Mixed	6,466	504	4,579

An interesting view of the structure of business indebtedness is also provided by the distribution of indebtedness according to legal form of organization, as listed in Table 2. It is worth noting the fact that virtually one-half of all indebtedness is concentrated in public corporations. Among others, this data item signals a high degree

of probability that public corporations that have been privatized within the framework of coupon privatization, irrespective of whether this was done during the first or the second wave of privatization, are extensively in debt. Corporations, together with state enterprises, account for an overall indebtedness of 93 percent.

**Table 2**  
**Late Payments and Obligations According to**  
**Legal Organizational Form as of 31 June 1992**  
**(in million Kcs)**

Item	Late Invoice Payments		Late Obligations
	Domestic	Foreign	
Territory of Czech Republic (total)	172,065	35,178	109,596
Including:			
Private corporations	996	470	731
Public corporations	78,404	28,649	45,888
Agricultural cooperatives	6,159	56	3,378
Production cooperatives	1,721	98	1,139
Consumer cooperatives	933	6	902
State enterprises	82,144	5,693	53,960
CSD [Czechoslovak Railroads]	352	8	3,079
Foreign trade corporations	107	111	33

Although available data do not make it possible to separate corporations that are purely privately owned from corporations in which the state is the sole or majority participant—public corporations—it can be anticipated that the private corporations exert an influence on the resulting indebtedness of all corporations that is more favorable than negative.

Despite the fact that the increase in enterprise indebtedness lost some of its sharpness in the first half (particularly in the second quarter of this year) in terms of development, it remains a highly relevant economic and social problem, whose solution is being sought but is hitherto not on the horizon.

#### What To Do With Debts

The greatest hope for paying off at least a portion of the existing debts is being connected with the Fund of National Property, which should, in harmony with a concept prepared jointly with the banking sector, cover a part of the losses suffered by creditors in the coming bankruptcies, losses that have occurred as a result of loans made to state enterprises before a certain date—for example, before separating the commercial banks from the Czechoslovak National Bank. The remainder of the losses would be borne by creditors—in other words, primarily the commercial banks.

Question marks surrounding privatization arise in conjunction with the concept of covering part of the losses for creditors from resources provided by the Fund of National Property. The possibility for the fund to act as a guarantor of the last instance and to provide resources for the elimination of debt is limited in practical terms (despite the fact that, by law, the fund provides guarantees without any kind of restriction) as a result of the supply and flow of financial resources. Until now, the extent of the resources at the disposal of the fund is in no way extensive. The anticipated inflow of resources is

then immediately dependent upon which privatization methods will be applied. While all methods are equal by law, that is not the case from the standpoint of the practical requirement for financial resources. While coupon privatization undoubtedly has its irreplaceable place in the privatization process by removing the aversion to privatization from the path traveled by economic reform, it is accepted as something positive by the majority of the population and has found its social consensus. However, it will not contribute a single koruna to the Fund of National Property and, from the standpoint of the need to solve business indebtedness, is useless. Although it is true that, if coupon privatization had been applied more rapidly, more across the board as the sole method, at least with respect to the large state enterprises, and without protracted and complex procedures involving evaluation and approval of privatization projects, the problem of business indebtedness would probably not have grown to such significant proportions. Nevertheless, it is a fact that privatization has found the road of combining standard methods with the non-standard method of coupon privatization, and it is useless to contemplate what would have happened if the law on large-scale privatization were different. Another of the frequently used methods—the cost-free transfer of property or securities to towns and communities or to funds of health insurance or social insurance—is also not usable for purposes of covering parts of the losses resulting from enterprise indebtedness.

The opportunity to acquire adequate quantities of resources for the Fund of National Property and, thus, even the possibility of solving the question of creditor losses connected with business indebtedness is, thus, conditional upon the extent of the application of standard privatization methods—public auctions, public competitions, direct sales to previously identified owners. It is clear that the criterion of the profitability of

privatization was underestimated and that the Czechoslovak economy is not now and never has been in such good shape that it could afford to underestimate the importance of this criterion.

Covering part of the losses for creditors who, at one time, loaned their financial resources to state enterprises is, however, only one of the reasons for applying the standard method of privatization to a greater extent. Indebtedness that arose after the separation of the commercial banks from the Czechoslovak National Bank—in other words, that indebtedness that is the subject of discussions regarding its solution, based on the resources of the Fund of National Property in conjunction with the coming bankruptcies—is only a small part of the overall volume of business indebtedness. If the third wave of privatization is not to become a wave of bankruptcies, it is necessary to solve the indebtedness of newly privatized enterprises as early as the time of approval for the remaining privatization projects of the first wave and all of the projects of the second wave.

#### Privatization for Money

There is no reason not to accept the rule (which is applied silently quite frequently anyway) of the fundamental priority of privatizing for money before privatizing without money. There is no reason not to accept the rule of the basic priority of a higher financial offer over a lower offer and to use that rule to replace the complicated, slow, and ineffective evaluation of business aims, which does not obligate anyone to do anything and which, at the time of the approval and evaluation, are moreover frequently already obsolete. Finally, there is no reason not to accept the rule of selling with a modicum of debt, if the sales price does not amount to the book value and is likely to be more symbolic. It is quicker, more efficient, and more transparent to sell an enterprise with a modicum of debt than to collect resources to liquidate its debt from other privatization actions.

Increasing the share of privatization for money can, naturally, readily encounter arguments that protect the interests of the citizen as a holder of investment coupons and an applicant for privatized property. However, it is more sensible and politically more prudent to offer the citizen less property under coupon privatization and a higher likelihood that that property will be preserved, than to give him a large amount of property that is soon transformed into dust and ashes.

#### Reception of Budapest Satellite TV in Slovakia

93CH0140A Bratislava UJ SZO in Hungarian  
11 Nov 92 p 4

[Article by Erno Ozogany: "Home Theater Hungaria—For Now"]

[Text] The pilot satellite transmission of Hungaria TV has been under way for two weeks. In view of the increasing interest in the satellite in our country, it is worthwhile getting acquainted with the parameters of the programs it transmits.

As we reported earlier, the first Hungarian satellite program is being transmitted by channel 33 of the satellite Eutelsat II F-3, which can be found at longitude 16 degrees east, approximately on the meridian going through Vienna. According to measurements taken so far—altogether five measuring stations were set up over the entire area of the country—the signal's field strength is 49 decibel watt [dBW] on the western border of Hungary, and 45 dBW on the eastern border. In practical terms this means that in the western part of Slovakia a satellite dish of 0.8 meter [m] diameter is sufficient for adequate reception, and even in the eastern part of the country one does not need one greater than 1.2 m.

The transmission takes place at 11,596 billion hertz [Hz], in the PAL system, with a difference of 6.6 MHz between the picture and sound carriers. According to plans, in the future they will switch over to the so-called euro-bundle transmission; at that time, the sound carrier will be reduced to 6.5 MHz. The program can be received by every kind of satellite receiver, which is capable of operating in the band mentioned above.

The test pattern of Hungaria TV appears everyday at 1700, leaving two hours for the viewers and measuring stations for tuning and undertaking the necessary measurements. The actual program starts at 1900 and lasts for three hours. After this, the test pattern appears again until 0100.

In view of the fact that the new television station has not yet been established, has no editorial office, does not transmit news, and does not employ an announcer, the entire program time is taken up with various Hungarian movies. Thus, so far, it is operating as a kind of Hungarian home movie theater.

The first independent program is planned for Christmas. Regular programming will begin in January, as planned, first for five hours a day, to be increased to eight by the end of the year.

**Enache Views Cluj Declaration in Budapest Weekly**

93BA0346A Budapest BESZELO in Hungarian  
28 Nov 92 pp 21-22

[Interview with Smaranda Enache, a leading official of the Civic Alliance Party, by Attila Ara-Kovacs; place and date not given: "Romania: From the Opposition Into the Opposition"]

[Text] *Smaranda Enache is one of those few Romanian politicians who already risked thinking differently during the Ceausescu era. She has firmly remained in the opposition ever since. Today she is one of the leading officers of the Romanian Civic Alliance Party, and editor in chief of the liberal opposition weekly newspaper GAZETA DE MURES published in Marosvasarhely [Tirgu Mures]. Permit us to make one personal remark: Elek Szokoly, one of the leaders at the editorial office, is Smaranda Enache's husband. Accordingly, Hungarian-Romanian cooperation is unclouded at least in this regard. Attila Ara-Kovacs conversed in Hungarian with the lady politician.*

[Ara-Kovacs] The Vacariou cabinet was sworn in the other day. Does the new government program mean any change insofar as Romania's future is concerned?

[Enache] After the Petre Roman and the Stolojan cabinets the Vacariou cabinet's program represents a clear restoration of prior conditions; we may count on a toned down, slow reform process directed from the top down, at best. We must continue to remain in the "fighting" opposition under such circumstances, instead of becoming a constructive opposition.

[Ara-Kovacs] The Romanian presidential palace is independent from partisan interests; the new cabinet was introduced as a government of experts continuing on the successful path followed by the Stolojan cabinet. Is this truly a government of experts? And was the direction taken by the Stolojan government truly promising?

[Enache] Experts really exist in this cabinet, but their activities have not been successful even three years ago. They enjoy the apparent, full confidence of the Iliescu front from a political standpoint, other than that, they are absolutely gray personalities. The most one could say is that a few of them stand out because they play an active role in the Vatra Romaneasca. Even the Stolojan cabinet was somewhat better than this one, at least a few representatives of one of the opposition parties—the National Liberal Party—were members of that cabinet. There is concern that a final, structural and institutional restoration is going to take place as a result of the present cabinet taking office.

[Ara-Kovacs] The persons occupying key positions in the previous cabinet—the interior minister and the defense minister—had rather questionable relationships with some rather questionable figures of the Ceausescu era. Has the change in cabinet affected these ministries?

[Enache] The defense minister is the same and continues his activities there, and although the person of the interior minister has changed, Mr. Magureanu, the chief of the secret services and the intelligence organization, remains in place. Everyone regards this as a sign of restoration. Due to the presence of these personages the present cabinet has no convincing credibility in terms of either domestic or foreign policy.

[Ara-Kovacs] Albeit with some reservation, the Democratic Convention—the election bloc that served as a rallying point for the opposition—has indicated that it would be willing to join the cabinet. This did not take place in the end. Why?

[Enache] Had the Iliescu front formed a cabinet that included real technocrats or truly outstanding personalities, it would have been conceivable for some representatives of the democratic opposition to join the transitional compromise. In addition, we have been demanding in vain for years the fulfillment of a few basic conditions, these have consistently been disregarded. For three years now the opposition has demanded day after day that the television be made independent from the government, that the secret service be placed under parliamentary control, that at least the president of one house of parliament be chosen from the opposition, and so on. But since the government has absolutely ruled out the possibility of fulfilling any of these demands, it has become obvious that the opposition could not reach agreements with the government either. If for no other reason, the present government is clearly a neocommunist government, and everyone is afraid of losing credibility by joining in coalition with such a government.

[Ara-Kovacs] The election results came as a cold shower to the Democratic Convention. Has the Convention changed its tactics since?

[Enache] Not for the time being. Even though we should admit that the issue involves more than the Democratic Front of National Salvation winning the elections; it also involves our losing the elections, and there are internal reasons for that. The Democratic Convention was established too late, it was too loosely knit, it announced its presidential candidate too late, and at the same time, in developing the Convention's platform, the various parties were unable to find five or six issues on which a full consensus could be reached. For example, between the Peasant Party and the Civic Alliance Party—regarded as the strongest opposition parties—there remained strategic differences to the end.

[Ara-Kovacs] What do you think of the RMDSZ's [Democratic Union of Hungarians in Romania] conduct?

[Enache] The RMDSZ played an important role in clearing up the dissimilar economic and political strategies. The situation became more difficult after the Kolozsvar [Cluj-Napoca] RMDSZ statement: The coalition was unable to declare clear solidarity with the RMDSZ. The plan for political autonomy proposed by the RMDSZ was viewed rather unfavorably in Romania. Although I, personally, could accept most of the plan, I

must confess that the proposal was unexpected. One could be apprehensive about the RMDSZ because it failed to reconcile the contents of the statement with the rest of the coalition members—the Peasant Party, the Civic Alliance Party, the Social Democratic Party; the RMDSZ should have at least stated in advance that it was considering making such a statement. In addition, I am not quite certain whether every leader in the RMDSZ understands the meaning of the principle of political autonomy the same way. Accordingly, the RMDSZ should have considered whether its own partisan political strategy—demanding autonomy—would “fit” into the overall politics at the given moment because Hungarian voters did not cast their votes for the tulip—the RMDSZ’s sign—alone in the elections, they also voted for the key, the sign of the Democratic Convention. I believe that some RMDSZ leaders felt it necessary to reinforce their political positions vis-a-vis the voters, at the same time, however, it was not enough to reinforce the RMDSZ’s unity internally, proof also had to be provided to the outside world, and their statement was well suited for this purpose.

Romanian democratic political forces must have been surprised to discover unstable political discourse within the RMDSZ, although one could already tell that various trends were represented within the RMDSZ. What we could not tell was which trend, which tendency would gain strength under various circumstances.

[Ara-Kovacs] Foreign Minister Nastase left a cabinet post that appeared most stable: Bucharest policies vis-a-vis Hungarians and Hungary were represented mostly by him. The education minister is going to pursue this “mission” from now on, according to initial reports. Minister Maior said the other day that he did not support Hungarian expectations regarding education, the teaching of the Hungarian language in Romania. What do you think of this? Is this a new casting of roles to be played, or is there a change in the original strategy?

[Enache] What surprised me more was that Foreign Minister Adrian Nastase accepted the vice chairman’s position in Iliescu’s Democratic Front. Aside from the position he represented vis-a-vis the Hungarian issue, we perceived him to be a rather dynamic, European style politician. But his present position as vice chairman of the Front suggests that a more nationalistic trend is gaining strength. Bringing the Education Ministry to the forefront is part of the logic I already mentioned. We are dealing with a cabinet that encourages restoration, and not with an open-minded political formation headed in the direction of the European way of thinking. Clearly conservative individuals were appointed to key ministries. Minister Maior is opposed not only to teaching in the Hungarian language, supposedly he is not going to have an open mind regarding parochial schools either, or with respect to having various educational programs in various schools. Simply put, just as the entire government, he, too, refuses to accept the idea of being different. Since the Hungarian issue can be exploited further in the region, the ministry is obviously going to

downscale primarily the Hungarian university or higher education in the Hungarian language, but in the background of all this we find that the government accepts only a unified, central education policy.

[Ara-Kovacs] Accordingly, am I correct in saying that in your view, anti-Hungarian sentiments are not the main problem in Romanian politics?

[Enache] It should be obvious that in some countries of the region people foster very strong, nostalgic feelings for the stability provided by communism, and that the government is trying to transplant this idea into the public mind by way of induction. I have in mind Serbia, Slovakia, and Romania, but not even the Bulgarian Government’s position is encouraging. The “Hungarian threat” could serve as one of the straps to hang on to in order to permit the restoration trend to evolve. Today’s politics, however, are not only anti-Hungarian, they do not even cater to fundamental Romanian interests. Iliescu’s politics, President Iliescu himself, are anachronisms in Romanian political life, and he should retreat. With headquarters transferred from Kolozsvár to Bucharest, the Vatra Romaneasca moved closer to the center of action. Bucharest has a nationalist center already: The Romania Mare Party influenced, and in part led by Corneliu Vadim Tudor and Eugen Barbu. I believe that Iliescu’s group is now trying to unite the two, and having the two nationalist trends under the same control may be an even better solution. I think that the Vatra Romaneasca movement is going to be integrated slowly with the strongest party that is closest to the Securitate, the Greater Romania Party led by Corneliu Vadim Tudor.

[Ara-Kovacs] Should I understand this to mean that Transylvanian nationalism is now being replaced by state nationalism?

[Enache] The state nationalism now being developed prefers to utilize the Transylvanian Romanian nationalism as a means to be used in centralized efforts, if needed. And it is going to be needed because the Romanian economic crisis is growing day after day, and in times like this it is inappropriate from the standpoint of a centralized state to have nationalism appear in various colors in different cities. We are now witnessing the era of centralizing various nationalist trends.

#### Difficulties of Visegrad Cooperation Discussed

93CH0187A Budapest KOZTARSASAG in Hungarian  
20 Nov 92 pp 102-103

[Article by Janos Karpati: “Visegrad Graduation; Ferike: Swine”]

[Text] Where do we stand with the Visegrad cooperation? Does this form of cooperation advance our efforts to join Europe? And who are the “naughty kids” in this group? Janos Karpati’s commentary dispatched from Prague seeks answers to these questions.

Czech caricaturists depicting East-Central European mentality often regard “childish behavior” as most fitting to convey the anomalies of our region. For example,

the outstanding Prague weekly *RESPEKT* provided an illustration with its Bos [Gabcikovo] summary showing little boys building a sand dam, putting together a toy turbine on the shores of a village stream. A similar outlook is reflected by another *RESPEKT* caricature, which shows a naughty boy scribbling his own distressing view of a classmate ("Ferike: swine") on a wall, while black-hooded commandos armed to the teeth jump to render harmless the mischievous kid. So be it, but mockery becomes truly elegant only if accompanied by self-mockery. But the Czechs do not show even a trace of self-mockery; they conduct themselves in the Visegrad group as if they were already accomplished executives, looking bored at their wristwatches in the constrained atmosphere of a class reunion, even though they have not succeeded either.

All four countries of the Visegrad group—four, because by now Czech country and Slovakia must be dealt with separately—can blame themselves for delays in joining Europe. Cooperation at Visegrad was not invented in order to postpone this entry, or to serve as a substitute for it, but to advance the cause of entering Europe. Visegrad has begun to play an independent role: Although it barely functions, the participants—willingly or unwillingly—hold up a mirror in front of themselves by making frequent references to Visegrad, and by reiterating the goals of Visegrad almost like in some ritual. In this mirror image they recognize that they can just barely get along with each other, let alone with others. Quotas, price supports, interest rates, and contingents are subjects of disputes in the great, united Europe, too. But Westerners are aware that the available solutions are limited; they usually refrain from scaring each other with military contingents. In contrast, in the framework of Slovak-Hungarian relations, politicians and some of the press have reached this low point. The most charming thing is when Czech journalists pluck strings that convey a sense of concern, while on other occasions, the same journalists go far in stressing that by now, Prague has nothing to do with what is going on along the Danube.

Several months ago an article published in the right-wing Czech newspaper *METROPOLITNI TELEGRAF* did exactly that. The logic of its author was as follows: Slovak-Hungarian relations are rapidly deteriorating. The conflicts could evolve into a bloody clash, after all, small partial conflicts have developed into war also between Serbia and Croatia. Meanwhile there still exists a Czechoslovak Federal State and a Federal Army. What happens if the Slovaks enlist the Czechoslovak Army's support in their conflict with Hungary? What happens if the Czechoslovak Army is assigned to play the same role as the Yugoslav People's Army? The Serbs have the Chetnik guard, the Slovaks have raised the possibility of organizing their "domobrana" (national defense). The Czech publicist drew his own conclusion based on this "Balkan parallel": A further deterioration in Slovak-Hungarian relations can be prevented by dividing the Czechoslovak Army, and in general, the two republics—as quickly as possible.

The Czechs pulled out the "Hungarian card" in days when they did not want to part with the Slovaks: They scared Slovaks yearning for independence with anticipated Hungarian territorial demands. With a bit of exaggeration one could say that at this time they scare their neighborhood with the threat of keeping Czechoslovakia in one piece.

Accordingly, the view that holds that it is better for Prague to keep away from the region East of the Morava River because that holds the threat of Balkanizing the region, has fertile ground in the Czech Republic. They must get rid of the Slovak burden, and it is not worthwhile to go along with Visegrad either. They must rush to Europe by themselves, where Czech country, endowed with many democratic (and industrial) traditions, would be received with open arms. This viewpoint was more or less also espoused by the Czech Government last summer, when the Czechs tuned in with the secession process initiated by the Slovaks, and Vaclav Klaus, too, had some distressing words to say about Visegrad.

The situation has changed somewhat since summer. Today's Czech foreign policy underscores the significance of good neighbor relations. Although Hungary is not a neighbor in a geographical sense, Klaus found it necessary to assign a prominent place in his prime minister's scheduling calendar for his visit to Budapest. Nevertheless, Czech politicians continue to be concerned about West Europe viewing Visegrad as a miniature successor to CEMA and the Warsaw Pact.

This, in spite of the fact that Brussels is more inclined to receive countries willing to practice integration with their neighbors than others that don't. The fact is that Czech country—if for none other than its geographical situation—could acquire a certain advantage over the rest of its partners in the Visegrad cooperation, if it successfully implements its economic transformation program. Klaus' privatization program involving property certificates (which enables citizens to buy enterprise stock) is an interesting and original experiment, but its effectiveness has not yet been proven. At the same time, however, the ongoing Czech divorce proceeding against the Slovaks, one that progresses at a rather slow pace because of a dispute over dividing property, could enter the final stretch, suggesting to western investors and European institutions that they adopt a cautious wait and see attitude. The Czechs and the Slovaks must still prove that they are truly capable of severing their bonds of common statehood in a staid, and civilized manner, and that in this instance they are going to be able to preserve, and even more so, develop relations of a kind justified by simple considerations of practicality.

Abolishing customs duties, for example, is an important element of integration. The Visegrad-3 have entered into an agreement on association with the EC, but since Czechoslovakia is going to cease to exist soon, the two successor states must reach an agreement on how to divide the export quotas originally established for Czechoslovakia as a whole. But the EC rationale

demands even more. Customs barriers between countries associated with the EC must not be higher than the barriers that separate these countries from the Common Market. The Visegrad countries have, for long, been discussing the establishment of a free trade zone, and it seems that at this point they have succeeded in reaching an agreement. According to people familiar with this subject, however, the agreement reached is not consistent with the starting point originally projected. The Poles, for example, claim that the short list developed for agricultural and food trade, and its constraining effect is of no value to them.

Insofar as the Slovak-Hungarian relationship—the weakest link in the chain that holds together the Visegrad participants—is concerned, the time has come to jointly rise above all the noise. Whether bilateral relations continue to deteriorate, and whether the ship from Visegrad hits rock bottom in the shallows of the Danube, does not depend on external forces and circumstances that cannot be influenced, but on the political will of Slovaks and Hungarians.

Slovak-Hungarian relations are burdened by two grave problems: Bos, and the minority issues. A number of other spectacular topics of shrill disputes are symptoms only; mutual charges of spying and soccer scandals turn into political headlines only if the two parties have already appropriately aroused themselves. The latter manifestations also include periodic statements and articles, which charge the other party—the party to be declared the opponent—with making aggressive military preparations.

The true character of the Bos issue and the minority issue should be defined by sober minds; we should find out whether these two problems indeed represent a grave, long-term conflict of interests that cannot be bridged. The two issues are of fundamentally different characters because Bos requires a onetime solution, while the minority issue cannot be resolved permanently. (Or if it can, the solution is called *Endlösung* [Final Solution] in “professional literature.”) Regarding the minority issue we must accept the fact that conflicts are not going to cease within the foreseeable future because the majority views minority rights as amply sufficient, while the minority regards these as insufficient. All that is needed in order to direct the permanent dispute into a civilized channel is for the two parties to believe each other that they have indeed recognized their own interests and that they want to come closer to West Europe. If that is done, the need for cultural autonomy is not going to be expressed in advocacy to sign off on Slovak statehood, while on the other hand, Slovakia is not going to be able to regard the infringement of rights of Hungarians as its historic mission.

All this will become credible to both of us if we see that in conducting foreign policy, political leaders make statements and decisions pursuant to the soberly perceived, long-term, real interests of their respective countries, instead of trying to stabilize their shaky domestic positions by using shrill nationalistic watchwords.

Without attempting to provide a complete list of examples in this regard, suffice it to mention a statement by Slovak head of government, Vladimir Meciar, the other day, according to which “the Slovak Republic is not going to yield to the Hungarians the independence it gained from the Czechs.”

If the key to the minority issue is the fact that it cannot be resolved as a result of a single action, the key to the power plant issue is that it must be resolved, moreover urgently and in a professional manner. This, of course, involves billions and the natural environment of entire regions. But this “work of art” is already sprawling along the river that marks the state border, and it would still be the cheapest solution for Slovakia and Hungary to make a joint effort to reduce the resultant damage. A bilateral political compromise regarding Bos should be ruled out because, unfortunately, there is no compromise that permits both dismantling and operating the dam system at the same time. Similarly misleading is the suggestion that would “depoliticize” the issue by seeking an answer from hydrological engineers and biologists. Only the writing of a professional opinion should be left to hydrologists and biologists, the answer must rest on political compromise, but this compromise must not be a bilateral, but a trilateral compromise in which the two affected parties agree to accept the third party’s—the EC Committee’s—hydrologists and biologists as unbiased professionals. Brussels, the third party, is also going to make some political sacrifice. It will accept the risk that the opinion of its own experts is not going to be liked by everyone. The extent of this sacrifice should be tolerable.

The Visegrad cooperation is not strong enough to advance the Bos solution, at the same time, however, the problem of Bos threatens the viability of the Visegrad cooperation. We would be better off, and a more organic developmental process would be manifest if we were to reach the EC jointly, via Visegrad. Paradoxically, however, we must accept the EC’s helping hand relative to Bos in order to accomplish this. But if the path to Brussels via Visegrad can be traveled only via Brussels, what need is there for Visegrad?

#### **Industry Minister on Privatization, Bankruptcies**

*93CH0122A Budapest FIGYELO in Hungarian*  
5 Nov 92 p 19

[Interview with Minister of Industry and Commerce Ivan Szabo by Erzsebet Eller; place and date not given: “Ivan Szabo on Industry and Other Subjects; Among Lobbies—As a Neutral Party”]

[Text] “I want to personally ensure that we do not deceive the government and the Hungarian economy as a whole by offering state subsidies to a selected 13 enterprises, hoping to bail them out of trouble,” said Ivan Szabo. Our correspondent went to see the minister of industry and trade to talk with him, among other things, about privatization, bankruptcies, energy policy, development and investment opportunities.

[Eller] How would Ivan Szabo describe to a foreigner the situation of Hungarian industry as of the end of October 1992?

[Szabo] Our industry is technologically obsolete, hence it is in an immediate need of capital infusion and innovation. Hence anyone wishing to invest here has two options to choose from: He can start a brand new venture by introducing state-of-the art methods and technologies, or he can buy an already functioning enterprise with the understanding that he must be willing to change its production structure and market orientation. Potential investors need to think not only about the purchase price, but also the supplemental investments they will need to make after privatization. The Szekesfehervar Light Metal Works are a good example of this for there the ratio between the purchase price and subsequent supplemental investments has been 1:3.

From whatever part of the world this stranger may come, I would ask him whether or not he is familiar with the prevailing trends in the European and world markets? Is he prepared to make long-term investment decisions? And finally, I would ask him whether he has enough capital to assume risks in the markets of the former Soviet Union? Although today this market is still not solvent, those who have the means to finance production during this transition period are also certain to gain access to it.

[Eller] For now, however, the fact is that for the past five years investments in Hungary have been declining.

[Szabo] This is because, as I have pointed out, Hungary lacks the necessary capital and new technological investments can only be expected to come from foreign capital. Or, in my opinion, from the activation of domestic savings. For today these latter amount to 1,200 billion forints. Once interests on deposits reach the point where investing one's money is deemed more profitable than putting it in the bank, this will have a favorable effect on industry.

[Eller] When do you expect investments to start rising?

[Szabo] Already in this fourth quarter we have seen a slight increase, although pessimistic projections tells us that they will start stagnating again. The head of Economic Research, Inc. Andras Vertes is also of the opinion that if there is to be some growth in the near future, it will be in the area of investments. An upturn in the construction industry is usually viewed as a reliable indicator of such a trend in any country. Since infrastructure and trade-fair related investments are expected to have a kindling effect on the construction industry, I am convinced that this will also impact on other areas of industry.

[Eller] One of the buzz words in the 1980's was productivity.

[Szabo] Productivity has improved to the point, where the only negative phenomenon we need to contend with is unemployment.

[Eller] Productivity has improved. How can one determine whether or not the reason why Siemens is laying off workers at the Telephone Factory is because with the introduction of new technologies and improvement in productivity it needs fewer workers even at a stepped up rate of production; or because it intends sooner or later to liquidate the factory?

[Szabo] Siemens has already made such a substantial investment in Hungary that I do not believe that liquidation would be its objective. In a handful of much less significant businesses I can see foreigners wanting to resort to this method of eliminating their Hungarian competition. In the eyes of foreign investors, Hungarian manpower is not only relatively cheap, but also efficient. Many investors have told us that Hungarian workers have been more productive using the same technologies than their West European counterparts.

[Eller] People asking questions often confuse the minister of privatization Tamas Szabo with Ivan Szabo. What in essence is the difference between your respective spheres of responsibility? Don't you have the feeling that the AVU-AVRt. [State Property Office—State Property Corporation] has a greater impact on the situation of our industrial and trade enterprises than does the responsible ministry?

[Szabo] Although both of us represent the state's interests, it is one thing to work in a proprietary position, and quite another to be a government administrator. To the industrial ministry the AVRt is just as much of a proprietor of its enterprises as is General Electric or Mr. Suzuki. So Tamas Szabo's institution will be entitled to the same things as GE's board of director's or Suzuki. No one expects them, however, to submit draft government decrees, parliamentary bills or to make decisions on the basis of trade policy considerations. The Ministry of Industry, on the other hand, does have these functions among its responsibilities. As far as their proprietary decisions are concerned, only one state agency has the authority to oversee them: the bidding office. It has the responsibility of ensuring that the new owner does not become a monopoly.

[Eller] The ministry's short-term industrial policy, the program containing special provisions for 12, and later 13 selected enterprises was prepared before the industrial policy concept promised for November. Was the selection of these firms only justified by the fact that we are in a transition period, or can it be considered a part of your long-term concept?

[Szabo] These enterprises will be given another chance at life, not in the form of direct state subsidies, but rather in the form of assistance to conform to the market place because they do have potential markets and the necessary expertise for the long run. The crisis management concept definitely had to be prepared before the final concept because the current wave of bankruptcies and liquidations could have easily wiped it all away. For it would be strange to read in the long-term plan about how nice it would have been if we had not liquidated one

enterprise or another. The government has been looking at two to three firms a week, and there are cases where acting as a catalyst we only assist in the bankruptcy proceedings, while in other instances we offer to forgive, reschedule or capitalize the outstanding loans.

[Eller] To what extent do you personally get involved in reviewing the status of individual programs?

[Szabo] When I need to make a case in the government for crisis management at a given enterprise, I am not doing so on the basis of a background summary condensed to a half a page. I want to personally ensure that we do not deceive the government and the Hungarian economy as a whole by offering state subsidies to a selected 13 enterprises, hoping to bail them out of trouble.

[Eller] You have talked about a wave of bankruptcies. Do you still stand by your earlier statement that we needed, and still need, a bankruptcy law in its present form?

[Szabo] Yes, in order to be able to carry out this clean-up campaign, we need to have a bankruptcy law. It is not a secret, however, that in the case of a couple of large enterprises the prospect of bankruptcy is one for which we must seriously prepare ourselves; hence I have asked my colleagues to prepare a program by 15 Jan 93, which outlines the circumstances of all bankruptcy cases so far, and their overall impact. By the middle of the first quarter, we would like to have a feel for the effect large enterprise bankruptcies might have on the small and medium-size firms within their scope of impact. I trust that this will provide a basis for working out a crisis management program by 1992.

[Eller] Isn't this too late? When the bankruptcy law went into effect in April, your colleagues told me that they had no projections to make at all.

[Szabo] The ministry cannot force the enterprises into providing data. Still in January, we sent out a circular letter to all enterprises asking them to let us know when they are in trouble, and we would be happy to help them, but only 25 to 30 percent have taken us up on our offer. It is a different matter altogether that this notwithstanding, in the case of 12 large enterprises we have found that all of them, plus possibly another one, will require government intervention. But these are not the only enterprises we deal with; in fact, these do not even include such firms as the Ozd Metal Works of the Diosgyor Metal Works.

[Eller] The ministry has recently completed its energy-policy proposal; however, it is still not clear whether or not there would be basic power-plant investments made in Hungary, and if so what kind. Whether listening to the proponents of nuclear power, the supporters of the gas-turbine concept or the lignite lobby, Ivan Szabo appears to be on everyone's side. Which option does the minister of industry really support?

[Szabo] I am extremely happy that this is your perception because it means that I have succeeded in preserving my neutrality. My role is to ensure that the energy

requirements of Hungarian industry and the populace are fully met—without becoming dependent on anyone—and that the consumers have access to the cheapest possible sources of energy.

I do think, however, that the gas, lignite and nuclear energy lobbies have the responsibility to show us what it costs them to generate one kilowatt of energy using the newest technologies. Naturally environmental considerations must also be taken into account. The final objective is to have an energy industry which after the transition will be able to stand on its own two feet without having to have its losses offset by funds from elsewhere. As far as power-plant investments are concerned, these will definitely be private, not state-financed undertakings. First, however, steps must be taken to ensure that these investments will be as profitable in our country as they are elsewhere.

[Eller] You are not suggesting to raise energy prices? We have information that next year's price projections include another 12-18 percent increase in electric, gas and district heating costs.

[Szabo] Our proposal is not as bad as people make it out to be. We already have the technology to be able to generate one kilowatt hour of energy for as little as 1.20 forints. Still the average price today is 3.30 forints. The new technologies to be introduced as a result of these investments will not be causing prices to go upwards...

[Eller] When will it be decided which type of power plants will be constructed?

[Szabo] Originally we had hoped that parliament would complete its debate of the government proposal in September, but due to the heavy load of issues facing it it has not been able to do so. It looks like the decision will not be made until the next quarter.

#### [Box, p 19]

#### Industrial Producers Prices in August

According to the latest data released by the KSH [Central Statistical Office], in August of this year the level of industrial producers prices was 10.8-percent higher than one year ago. Domestic sales in the past 12 months entailed a 9.5-percent price increase, with a corresponding increase in the area of export transactions of 14 percent.

The smallest price increases were in the energy industry. Compared with the same months last year, producers prices grew by 5.4 percent, domestic sales prices by 4.0 percent and export prices by 5.4 percent. Price increases were greater in the basic-material producing branches, where they had risen by 6.7 percent, 8.9 percent, and 2.4 percent, respectively. The greatest jump during this period—14.7 percent, 12.1 percent, and 16.0 percent respectively—occurred in manufacturing prices.

According to KSH's statistics for 1991, per capita productivity had declined by 9.8 percent (see chart below). In the first eight months of this year, there has been an additional decline in productivity of 6.4 percent.

**Industrial Productivity\* by Branch**

	1991 as a percentage of 1980	1989, Previous year=100 percent	1990	1991
Mining	123.9	103.0	106.0	106.1
Electric Energy Industry	106.5	103.3	95.4	98.7
Metallurgy	106.4	113.6	92.4	82.3
Machine Industry	102.2	101.6	87.9	77.6
Construction Materials Industry	97.8	100.2	96.8	76.5
Chemical Industry	96.6	93.9	95.1	88.0
Light Industry	108.1	95.5	94.5	86.2
Other Industries	113.8	98.0	93.5	85.2
Industry without Food Industry	113.7	100.7	94.5	87.7
Food Industry	111.4	100.8	101.3	97.3
Total	115.8	100.7	96.1	90.2

\* Production per employed capita

**State Accounting Office Views 1993 Budget**

**ASZ Report**

93CH0177A Budapest FIGYELO in Hungarian  
26 Nov 92 pp 14-15

[Article by G. K.: "State Accounting Office Report on the Budget—The Revenue and Expenditure Projections of State Agencies Lack Foundations"]

[Text] This is the third time—but only the first time since the adoption of the State Household Law (AHT)—that the State Accounting Office performs its constitutional duty to audit "the foundations of the state budget proposal, and the necessity and appropriateness of the use of funds."

The AHT provides that funds borrowed to finance the budget, and repayments of such borrowings must not be accounted for as revenues and expenditures that change the amount of the surplus or deficit, and that in the course of planning and reporting, the extraordinary revenues and expenditures of the state household must be accounted for separately. The purpose of these requirements is to enable the National Assembly to recognize the extent to which current revenues cover current expenditures and extraordinary revenues cover extraordinary expenditures, and the way borrowings and repayments of credit influence the budget balance in a given fiscal year. All the budget bill does in this regard is to list the extraordinary expenditure objects and extraordinary revenue sources without stating the related amounts. The role played by extraordinary revenues acquired as a result of utilizing state assets would justify the joint review of all these factors.

The method of forecasting used for 1993 tax revenues is basically appropriate, nevertheless, the anticipated amount of sales taxes and corporate taxes will be influenced by a number of uncertain factors. The difference between the amount of customs duties and statistical fees to be assessed, and the actual amount to be paid

in is going to be greater than the difference between the amounts expected and the actual amounts paid in 1992. Changes made this year—demanding security deposits on customs duties, improvements in computer applications, the establishment of a separate bankruptcy and collection unit within the customs service—should not permit further deterioration. It would have been appropriate, however, to divide the amount of customs duties owed into amounts expected to be collected in 1992, and amounts planned to be received in 1993.

The State Property Management Corporation [AVRt] is obligated to pay 14 billion forints in dividends to the central budget based on 1992 after tax profits earned by organizations operating under the AVRt. The budget does not contain calculations that support the estimate for dividend payments.

The goals established as part of the Finance Ministry's budget principles are reflected only in part in the chapter by chapter projections of the 1993 proposed budget. The revenue and expenditure projections of organs funded by the state budget lack foundations. Reduced funding is paralleled by a mass of functions—unchanged both in volume and composition—the agencies cannot be expected to perform.

The budget planning process continues to be characterized by bargaining mechanisms and a lack of objective measurement standards. A substantive review of the basic projections has not taken place, and the promised "zero base" planning has failed to materialize due to lack of planning and lack of regulations.

In the framework of the traditional order of planning the revenues of some institutions continued to be underestimated, and therefore the structure of their expenditures has also been distorted. The obviously irrational projections were not corrected either by the ministries responsible for the individual chapters, or by the Finance Ministry. In terms of expenditure totals the expenditures of agencies funded by the central budget have increased

by 17 percent, their revenues have increased by 34 percent, and their funding has increased by 10.3 percent as compared to the amounts projected for 1992. The unprecedented large increase in projected revenues is realistic because the actual amount of revenues has exceeded the projections year after year, and the 1993 projected amount of revenues still falls short of the 1991 actual amount of revenues by 10 percent.

Financial management rules applicable to local governments in 1993 are based on resources that maintain a system of supplemental support payments in addition to standard support. The fundamental problem of this system is that lacking a distinct separation of state functions, the annual changes in funding present a situation in which local governments are unable to make calculations for their long-range plans.

Based on its legal mandate, the ASZ [State Accounting Office] regularly audits the legality of ways in which local government utilize state support funds. On the other hand, there is no legal basis upon which local governments can be forced to repay illegally used support payments exposed by ASZ.

Contrary to intentions expressed originally, the role of segregated state funds has further increased in 1993. Income centralized through secondary channels, then distributed has increased. In general, the allocation of funds for 1993 did not take place on the basis of goals and the availability of other resources, but in the framework of a bargaining mechanism. A law regulating the various funds is being prepared, but there is no uniform concept upon which such rules could be based, nor has there been any correlation made with the central budget.

Even though the AHT requires that the legislative proposal include a report about guarantee obligations made thus far, and expected to be discharged in 1993, the proposal does not include such a report. The proposal expanded the state's obligations as a guarantor with respect to Social Security; with that the regulations became more consistent with the Social Security Law requiring that "the state pay for expenditures incurred in excess of revenues."

The finance minister is authorized to issue 460 billion forints worth of short-term and long-term securities to finance the imbalances of the 1992 and 1993 budgets. The legislative intent supportive of the proposal does not include detailed calculations with respect to the interest expenses to be incurred. Thus, the data presented to the National Assembly do not reveal the fact that within the debt service, interest payments will constitute a larger proportion of the burden for several years, than the cost of defraying the credits. Interest on bonds and treasury certificates in 1993 alone will amount to 86.2 billion forints.

The budget proposal stipulates the issuance of bonds worth 160 billion forints and treasury certificates amounting to "at least" 25 billion forints in 1993. The latter provision indirectly authorizes the issuance of securities for unlimited amounts, enabling the finance

minister to finance even a significant excess budget deficit, and to thus eliminate the need to prepare a supplemental budget.

#### 1993 Budgeted Revenues Having a Return on Capital Character<sup>1</sup>

Budget item	Authority	Amount (in millions of forints)
Payments by business organizations	State share payable after state property	6,600
	Land taxes	3,800
Payments by organs funded by the central budget	From the revenues of the Treasury Property Management Organization	1,200
	Dividends	2,000
Corporate taxes and dividends from financial institutions	State Property Agency payments	5,000
Revenues related to debt service	Dividends paid by the State Property Management Corporation	14,000
<b>Total</b>		<b>32,600</b>
Privatization revenues used directly to finance Funds		20,500
<b>Grand Total</b>		<b>53,100</b>

<sup>1</sup>ASZ compilation

#### [Box, p 14]

#### Guarantees Provided

The legislative proposal projects that 12 billion forints in guarantee obligations will be discharged in 1993. This amount appears to be low because one can already be certain about discharging guarantee obligations amounting to between 9.5 and 10.0 billion forints relative to grain exports. The remaining projected amount is disproportionately low to cover other guarantee obligations to be discharged in 1993, such as the outstanding questionable loans of commercial banks, and guarantees related to certain large enterprises. The review of guarantees is made more difficult by the fact that despite the requirements of the AHT, the Finance Ministry has not developed a system for uniform record keeping and accounting for such guarantees.

#### ASZ Audit Approach Questioned

93CH0177B Budapest FIGYELO in Hungarian  
26 Nov 92 p 14

[Article by G. K.: "Could ASZ Be Contradicted?—Gyorgy Naszvadi Regards ASZ Approach to Budget Flawed"]

[Text] The ASZ [State Accounting Office] report on this year's supplemental budget, and next year's budget regards the provisions of the AHT as if they were supposed to prevail regarding every detail. This is an

excessive requirement. The AHT is a basic law, whose several implementing decrees have yet to be prepared. Aside from that, we began developing the 1993 budget prior to the adoption of the AHT. Accordingly, one should not demand that the budget proposal fully comply with every requirement of the AHT. Establishing the information and balance system specified by the AHT could also result only from some lengthy work process.

The AHT discusses the supplemental budget only in terms of an overall framework, the specific contents of a supplemental budget, and thus criteria for the mandatory preparation of such a budget are not specified by the AHT. Based on the 1991 and 1992 budgets, and on the AHT's logic, a supplemental budget becomes necessary only if the government requests money for the performance of a function that had not been planned. As we all know, the larger than planned deficit in Hungary was caused not by excessive expenditures, but by a shortfall of revenues as compared to the projected levels.

It is not easy to interfere with the expenditure side of the budget in the course of a year. The ASZ is correct, of course, when it states that once parliament approves a given budget deficit, resources over and above the approved levels cannot be used to finance the deficit. But what happens if it turns out in December, for example, that the deficit will exceed its planned level by 10 billion forints? This problem is intended to be resolved by the proposed budget when it enables the issuance of "at least" 25 billion forints worth of treasury certificates. Thus we need not request additional appropriations from parliament to cover a shortfall of a few million forints in revenues.

The situation is different, of course, if a significant excess deficit becomes apparent earlier. In such cases it is in the government's own interest to submit a request to parliament earlier than it did this year. It would be appropriate to establish specific criteria, such as deadlines, for having to take such action. Incidentally, the ASZ did not at all criticize our revenue projections last year, and did so very cautiously this year; I do not like their approach of exercising retroactive criticism.

#### **Finance Ministry on MSZP Critique of Budget**

*93CH0156D Budapest FIGYELO in Hungarian  
12 Nov 92 p 18*

[Statement issued by the spokesman of the Finance Ministry's Office, published at the request of the Finance Ministry: "Flowery Language, Demagoguery, and the Facts; Comments on Hungarian Socialist Party Representative Dr. Laszlo Bekesi's Speech in the Course of Debate Over the 1993 Budget"]

[Text] We listened to the remarks of Mr. Bekesi, the lead speaker of the Hungarian Socialist Party [MSZP], with great interest and attentively during general debate over the 1993 budget. The Finance Ministry was shocked by the great lack of information the former finance minister—regarded as an outstanding professional—revealed.

Mr. Bekesi has this to say about the 1993 economic policy forecast: "... The several hundreds of pages submitted lack arguments to support the established goals of this economic policy: a 0-3 percent GDP growth, a 2-6 percent increase in investments, a 16-19 percent inflation rate, and maintaining the consumption level," moreover, he also says that the government is denying the harmful effects of the large deficit, notably, that the deficit "will set back economic growth," and "could refuel the inflationary spiral."

(a) Even when preparing professionally well-founded forecasts one must count on a rather significant margin of uncertainty. It would not be enough for us to choose only the most pessimistic guess. It would not manifest responsibility on part of the government and the legislature to e.g., establish financial policies and budget allocations based on such guesses; doing so would indeed represent—and without foundations—a "budget of misery."

(b) Forecasting stagnation, perhaps a small growth of the GDP, represents only an assumption that this year's trends continue, because the GDP's 1992 level, which is 5 percent lower than last year, is realized only if production stagnates at last year end's level.

(c) Thus far the increasing deficit has not retarded growth in the short term, and has not fueled the inflationary spiral, because of the far greater increment in savings. The threat of an overbearing, inflationary effect exists in the long term, and this is why we proposed a budget and a state household deficit that is smaller as a percentage of the GDP, and supported this with a combined revenue statement and arguments, unlike that is stated by Mr. Bekesi. According to this calculation, the amount of net borrowing by not only the state household, but also by entrepreneurial ventures is going to be significant, and this is going to provide a chance for growth; and along with individual savings, the actual amount of which is still increasing, but whose ratio is declining, no inflationary pressures will be generated.

"I wish the government were correct, I wish that a neatly declining pace of inflation could be achieved! But in viewing the individual elements we find that here, too, the optimism is greater than the foundations upon which the program is based," we heard Laszlo Bekesi say. According to the lead speaker of the MSZP: "The chief factors of increased consumer price levels in 1993 will be as follows: the direct and indirect effects of introducing dual rate general sales taxes [AFA]—6 percent; the overlapping effects of 1992 price changes in 1993—8 percent; and, in an average, a 0.8 percent monthly price increase based on producer price increases, amounting to 10 percent in the course of 12 months. This altogether means a 23-25 percent inflation rate."

Almost 5 percent of this calculation is due to a mathematical error. The 0.8 percent monthly price increase results in an annual average price increase of not 10 percent, but 5.4 percent. (The other factors of this index also represent annual averages.) Considering that on the basis of actual monthly statistics for January through September 1992, price changes carried over to 1993 are going to amount to about 7 percent, and not 8 percent, we are within the projected 16-19 percent price level

increase. Further, it is a mistake to treat the indirect effects of AFA as factors that directly increases consumer prices, and to account for these effects twice! In essence, this represents an increase in wages, that is part of the forecast related to producer prices.

According to Mr. Bekesi the macro-economic conditions (e.g., budgeted expenditures!) should be streamlined on the basis of an inflationary forecast that also takes into consideration the higher, unpredictable factors. Doing so, however, would not even give a chance for a reduction in price levels, because the money supply would unnecessarily increase in the economy, and the prediction of higher prices would become part of expectations, contracts, and interest rates.

Mr. Bekesi has mentioned the forceful increase in taxes that burden the populace, and supported his statement as follows: "In the framework of income taxes, the real increase in the tax burden presents itself in the context of personal income taxes, due to the failure to valorize, and by the introduction of the 50 percent tax rate; and we all are very well aware of the burden presented by the dual rate AFA. Consumption taxes will produce 20 billion forints [Ft], the individual share of contributions to the solidarity fund will amount to Ft9 billion, local taxes—if local governments take this step in response to economic constraint—will amount to Ft7 billion, and the road fund will produce Ft1 billion. Taken together, respected House—and not including the natural tax increase created by inflationary effects—the budget expects to collect Ft130-140 billion more in taxes in 1993 than before, and mainly from individuals, because, as I mentioned before, profit taxes are going to be reduced."

In contrast, the revenue projections contained in the proposed budget include the following facts:

(a) The incremental amount of personal income taxes is Ft41.1 billion. Individual income is going to increase by 15 percent, while the tax burden is going to be 0.3 percent larger than before. If the tax burden remains unchanged, the amount of taxes paid would be Ft31.6 billion. The increased burden produces Ft9.5 billion in added revenues.

(b) The tax increase resulting from the introduction of the dual rate AFA—AFA and consumption taxes jointly—produce Ft80 billion, of which Ft50 billion are going to be paid by individuals after purchases made.

(c) The increment in consumption taxes amounts to Ft19 billion due to itemized valorization, but the share to be paid by individuals amounts to Ft12 billion.

(d) The excess amount involved in the solidarity contribution—or, to use the accurate designation of this fund: employee contribution—is Ft9.5 billion.

(e) Of the Ft7-billion local tax increment, Ft2 billion are going to be paid by individuals.

(f) Of the Ft840-million excess tax revenues to be credited to the Road Fund, about Ft500 million will be paid by individuals—or more accurately: by owners of cars.

(g) A decrease of Ft1.1 billion is expected in other types of individual taxes.

In sum: The budget is based on an expectation that individuals are going to pay Ft114 billion in additional taxes in 1993, which is no small amount, but one that still does not amount to Ft130-140 billion.

Mr. Bekesi statement, according to which the proposed budget would "authorize the government to issue" an unlimited volume of "state securities even in excess of Ft300 billion," is misleading.

We intend to realize a financing practice that is flexible in adapting to market needs, and not an "unrestricted" financing practice. The issuance of treasury certificates serves a dual purpose. In part they cover some of the deficit in a given fiscal year, and in part they provide sources necessary to maintain the continuous liquidity of the state's operating fund. The latter represents not only the continuous funding of budgeted expenditures, but also provides funds for advance payments related to the operating funds, funds needed primarily for the payment of pensions.

The statement according to which "the issuance of treasury certificates and liquidity treasury certificates naturally increase interest rates and therefore have a coarse inflationary effect" cannot be accepted. Last year's money market processes prove that the exact opposite is true. It was possible to influence the gradual decline of market interest rates by gradually reducing the interest rate on short-term securities. The present, average yield on 90 day treasury certificates is approximately 16-17 percent, about half the yield of last year.

Had Representative Laszlo Bekesi not been the head of the Finance Ministry for several years, moreover, during a period when the system change had been fermenting—of which he had been a positive part—we would be less surprised about his statement on the standard of living. In his judgment: "The government is unable to provide a satisfactory response to one of the most important issues: social welfare, even if it manifests good intentions."

What should a citizen think of a remark like this in parliament? Should representatives do nothing but debate in parliament because the large distribution systems have not been reformed, at a time when no one is willing to tell what exactly that means?

But Mr. Bekesi, too, operates only with good sounding generalities, he does not like to make specific proposals for necessary action either. Reforming the distribution systems means none other than a fundamental changing of the structure of distribution. In order to do that one has to increase the ratio of income produced by labor within the total volume of individual income. This, in turn, means that the ratio of income paid in the form of money on the one hand, and in kind, on the other, would have to be reduced. Mr. Bekesi is obviously aware of this, but he is not willing to talk about it in parliament.

Laszlo Bekesi was objective in saying that "the economic legacy is burdensome, and the present government must not be blamed for it." But he added to this statement that "more than two years have passed since...."

Mr. Bekesi! Do you recall the words you used during parliamentary debate over a proposed state household reform concept and the related 1989 tasks, when you responded to people who manifested impatience at the time?

We will come to your help. The August-September 1989 issue of *PENZUGYI SZEMLE* had this to say: "Dr. Laszlo Bekesi recalled the international experience, according to which every country that implemented a change of as large a scale as ours in its tax system, needed at least three years before the system could function normally, and another three years, before the favorable effects could begin to evolve."

In submitting the 1990 proposed budget you started your speech as follows:

"Finance ministers submitting annual budgets on behalf of the government have often said in this building: It is important from the country's standpoint to have an approved budget, because this is one of the conditions for the continuous functioning of the economy."

Mr. Bekesi! We suggest that we continue working in this spirit, in order to successfully start out the year 1993!

#### **Indirect Nationalization of Banks Mentioned**

*93CH0120B Budapest FIGYELO in Hungarian  
5 Nov 92 p 9*

[Article by cz: "There Is No Explanation...."]

[Text] There is no explanation... for the nationalization of banks. On 2 November the MTI news agency carried the Banking Supervision's report on the situation of financial institutions and about the so-called cheapest way to manage the crisis. According to MTI, "The Banking Supervision recommends so-called positive crisis management to the government, the first phase of which could involve the use of state funds to improve the capital supply of financial institutions experiencing difficulties, and this would also mean nationalization. Only thereafter, several years later, could these financial institutions be once again privatized."

Immediately upon hearing the news we paid a visit to the Banking Supervision to ask some questions: What method do they perceive to use for nationalization? How much does this cheapest solution cost and what money would be used to finance this aid amounting to several billions of forints? Would they use market methods by issuing securities perhaps? What would the Finance Ministry—already forced to issue securities worth several hundreds of billions of forints to cover the 1993 budget deficit—say to this? If the nationalization of banks in which the state controls a majority of the stock is the first phase, what is going to be the second phase? What is the AVU [State Property Agency]—which owns the majority of the shares—going to say to this? Imre V.

Csuhaj, the cabinet chief to the privatization minister, recently stated to this newspaper that the privatization of the first bank is going to begin this year. And what are foreign strategic investors going to say about this, who were lured to Hungary by an opportunity to invest in banks? Wouldn't they be alarmed by this chaos and permanently lose all interest in investing?

For now the questions remain questions, because no answer was forthcoming from the Banking Supervision as we went to the press. Accordingly, the report is hanging in the air and there is no credible explanation. It could be, of course, that the question marks are only based on our lack of understanding. But as of Monday [2 November] Privatization Minister Without Portfolio Tamas Szabo said that he was surprised by the new position taken by the Banking Supervision.

#### **Investment, Development Bank Analyzed**

*93CH0176A Budapest HETI VILAGGAZDASAG  
in Hungarian 14 Nov 92 pp 80-81*

[Article by Aniko Szanto: "New State Bank: Secret Money"]

[Text] The first Hungarian investment bank is about to become reality, but with no few blemishes. We should know by now that as long as the future institution does not have to struggle for resources, a threat exists that the state-owned corporation is going to distribute public funds like yet another government office having the outward appearance of a financial institution.

Although the Hungarian Investment and Development Corporation (MBF Rt. [MBF])—established on 27 November 1991, registered on 23 June 1992 with a basic capital of 4.6 billion forints—intends to convert itself into a bank, and is going to be engaged in granting loans that mature in more than one year and in investing in entrepreneurial ventures, it is not going to be required to search for the needed resources. Instead, like heavenly manna, the funds will be provided by the National Assembly. As part of the 1992 Property Policy Guidelines parliament mandated that "8 billion forints" of privatization revenues "be allocated as basic capital for the MBF." The fact that this quasi-office is going to engage in income distribution according to the likings of the largest ruling party appears to be substantially assured by the person of the corporate president, MDF [Hungarian Democratic Forum] Representative Gyula Takacsy, the chairman of the National Assembly Committee on the Economy. And things look even more that way, because the probable exclusive owner of the investment bank is going to be the State Property Management Corporation (AV Rt. [AVR]), whose "general meeting" materializes in the person of (MDF) Minister Without Portfolio Tamas Szabo.

Although 2.654 billion forints of the MBF's basic capital is presently held by the State Development Institute (AFI), 1.946 billion forints by the State Property Agency

(AVU), and 7 million forints by the Gambling Corporation based on a syndicate agreement allegedly consummated at the time of establishment, the AFI is going to transfer its shares to the AVU in the near future. "All we have to do in the coming days is to agree on the price of the stock," according to AFI chairman and president Miklos Szoke, who holds the MBF stock at least at face value.

Meanwhile, however, the MBF has been added to the government roster of property owned by the AVR, and according to that roster, the state intends to retain 50 percent of the vote, plus 1 vote in the corporation. Thus the AVU must forward the stock portfolio to be received from AFI together with all the other stock held by AVU to the AVR. No longer is there a need for the Gambling Corporation to hold on to its 0.2 percent share of the stock, experts claim. Gambling Corporation was drawn into this "business" in November 1991 in order to avoid a situation in which the state established a corporation wholly owned by the state, because had that been the case, the government would have been forced to guarantee all obligations incurred by the new firm. In any event, together with the law governing the state's entrepreneurial property, there appeared a new provision stating that "a single-person stock corporation is being established even if a single stockholder owns all the stock."

The MBF submitted to the State Banking Supervision (ABF) its formal petition to convert itself into an investment bank on 16 October, about one week before the National Assembly adopted the 1992 Property Policy Guidelines, we were told by corporate Chairman and President Miklos Banyai. Experts believe, however, that the struggle to obtain a permit for the corporation to pursue the activities of financial institutions has been going on behind the scenes for quite some time. Presumably, the corporation that has been nurturing dreams ever since its establishment about becoming an investment bank, got this idea from Mrs. Gusztav Bager, the former president and chairman of AFI, the present vice chairman and vice president of MBF. She was the one who felt that unlike in socialist economies, no separate institution, like AFI, was needed to finance state investments in a market economy, and so she tried to escape into the future by establishing the foundations of an investment bank. The only problem was that in doing so she was able to do magic only to the extent of 1.3 billion forints in cash, while multiples of that amount would have been needed to take over the portfolio of stock and business shares held by AFI (HVG 27 July 1991).

According to the financial institutions law now in force, "an investment bank shall have a minimum of 500 million forints to start with, but in the end, the size of the registered capital shall be determined by the ABF in agreement with the MNB [Hungarian National Bank], consistent with the scope of activities intended to be pursued by the financial institution." Based on the lack of sufficient cash at the time of founding, the ABF stood up against Finance Minister Mihaly Kupa, and refused

to authorize MBF to pursue the activities of financial institutions. Since then, MBF's assets have expanded as a result of the founders' contributions: this year 51 percent of the Gyor-based Raba firm, and AVU's share of ownership in the limited liability corporation established for the utilization of the island at Obuda have become MBF property. MBF's Miklos Banyai estimates the worth of these two properties between 4 and 5 billion forints.

In March, following the adoption of the 1992 state budget, a seemingly stronger Mihaly Kupa proclaimed that the MBF would operate in the near future as a reconstruction bank, making outplacements from the fruits of the finance minister's international economic diplomacy: the medium- and long-term loans obtained from various international financial institutions. It is the irony of fate that at this time, in the final days of October, it was Tamas Szabo who announced the birth of the reconstruction bank. With that the concept of the MBF operating as an investment bank also underwent quite some change. An opportunity to establish an organization which, with the help of a little cleverness, could also be operated as the MDF's in-house party bank, came just in time. It could also benefit the election struggle if MDF representatives channelled state revenues through the MBF into their own voting districts.

Accordingly, unlike originally perceived, the MBF will not make business loans from medium- and long-term international credits in the near future, loans that must be repaid sooner or later. Instead, it will try to distribute the state's privatization revenues based on business considerations. According to Miklos Banyai, "for the time being, in the next one or two years we are building mainly on domestic sources, privatization revenues—on about 10 percent of the total amount of such revenues in any given year." They are not seeking a general permit to receive international credits for now, according to the chairman and president, on the other hand, individual foreign credits obtained by the MBF will be acquired "in full agreement with the MNB, with their support and guarantee." One could also assume that some political foresight manifests itself in the fact that based on the MNB Law, the MNB must surrender in late 1993 its authority to act as a commercial bank, and that it is attempting to educate the MBF so as to become its successor in the international money market.

In its flirtation with the European Bank for Reconstruction and Development [EBRD] the MBF let it be known at the EBRD's April general meeting held in Budapest that it would always maintain 10 percent of its resources in liquid funds, and half of its resources invested in profitable enterprises so that these enterprises could finance state purposes involving higher than average risks or investments. "We have in mind providing capital to individual small- or medium-size enterprises up to 15-20 percent of the amount of their basic capital, we plan to charge mission-oriented interest rates which could deviate from the prevailing basic Central Bank

interest rate—21 percent at present—by a maximum of 3 percentage points,” the chairman and president said.

Although in light of concerns experienced by other Hungarian banks, this venture in itself suggests appropriate self confidence, these ratios appear to have been upset immediately, in the first year, as a result of the easy money received from parliament. According to Miklos Banyai, 3-4 billion forints of the 1992 privatization revenues must be expended to establish three, so-called regional development corporations, 1 billion forints must be earmarked for the establishment of a mortgage loan institution, and an additional 3-4 billion forints must be expended to render viable certain troubled large industrial enterprises to be designated by Minister of Industry and Commerce Ivan Szabo.

No business enterprise could permit itself not to commit its resources even for a single day. In contrast, preparations for utilizing moneys to be transferred to the MBF have week footings, for now. Experts claim that at least four laws would have to be created or amended in order to establish a mortgage loan institution. Many local governments have not even received official notice of the regional development corporations dreamed up by the MBF. In late October, early November, the MBF asked city governments in the affected regions to make statements of intent regarding their participation in, and financial contribution to the regional development corporation within one week after holding the conference.

This was done, however, without the MBF providing a specific definition of the regions to be developed and of the criteria for investments. Tibor Danko, the deputy chief of the enterprise development directorate at the Nyiregyhaza city government informed HVG that they intend to talk to their counterparts in Borsod and Hajdu-Bihar counties only after the 16 November general meeting of the Nyiregyhaza local legislative body, in order to find out whether they intend to jointly contribute to the planned 2 billion forint basic capital of the Eastern Hungary Development Corporation. So far as Danko knows, the MBF would provide 1.5 billion forints in cash to the region, while MBF expects local governments to contribute 500 million forints from contributions received from well-functioning firms and shops. In Szeged, Regional Prefect Laszlo Farkas organized an initial, preparatory discussion on 29 October. Although four MDF National Assembly representatives attended the meeting for the sake of emphasis, only 14 city governments and the Csongrad and Bacs-Kiskun county legislatures were represented. Smaller settlements were not even invited.

Local governments thus face a big dilemma. A mayor, who asked not to be identified, had this to say: “We would not like to miss the unusual financial opportunity when the state pours money in the laps of local governments, at the same time, however, we are hesitant because of the unusual haste manifested by bankers, who aim for establishing the regional development corporations in December, according to indications. MBF

leaders have not considered the fact that local governments can declare their intentions regarding participation in such an undertaking only after their respective legislative bodies have made a decision. On top, MDF-controlled local governments would also like to obtain a guarantee to the effect that the distribution of privatization revenues is not going to be accomplished on the basis of political considerations.”

**Property Policy Guidelines 1992, 1993 Compared**  
*93CH0120A Budapest HETI VILAGGAZDASAG*  
*in Hungarian 7 Nov 92 p 18*

[Unattributed article: “Property Policy: 1992, 1993”]

[Text] A document entitled “1992 Property Policy Guidelines” is yet another contribution to the series of absurdities in Hungarian economic history, because despite the two years it took to develop the document, it will be valid for only two months. On Monday, minister without portfolio in charge of privatization Tamas Szabo explained to a press conference that the National Assembly had been able to debate the guidelines it received in June only after adopting laws in the summer concerning the utilization of property that remains under long term and temporary state ownership. Thus, from a practical standpoint, the 1992 Property Policy Guidelines retroactively define the government’s privatization goals for this year, which include the strengthening of competition, advancing integration with world markets, and reducing the amount of state indebtedness, as well as procedural rules for privatization, the ownership rights of the state, rules for the acquisition of assets by employees, and the method for transferring property free of charge. A determination concerning the utilization of the estimated year-end amount of 70 billion forints in privatization revenues is the only item of substantive significance.

As compared to the 1992 document, the 1993 Property Policy Guidelines—to be debated in parliament in the coming weeks—contain significant changes. In contrast to its 1992 practice, the government does not mention even as a partial privatization goal for 1993 the maintenance or strengthening of interest by foreign investors, at the same time, however, the proposed guidelines give special emphasis to the broadening of property acquisition by Hungarians with the help of new privatization techniques (leasing, time payments, credit certificates) most of which are still being worked on. It is remarkable that this year the government is able to grant at most a 50-percent discount to employees intending to purchase their employer enterprises in whole or in part; in case of installment payments, the down payment must amount to at least 25 percent, and the total amount is payable over a maximum of three years. These constraints will be discontinued next year. The 1993 Property Policy Guidelines do not reveal whether the government also expects to receive privatization revenues from the State Property Management Corporation [AVRt]—also authorized to sell enterprises—but the AVRt is obligated to contribute 14 billion forints to the state budget in the

form of dividends, while the State Property Agency [AVU] is expected to generate only 47 billion forints in revenues—far less than this year.

#### Utilization of Privatization Revenues in 1992

	(millions of forints)
Property management fees and expenditures	300
Pre-sale reorganization	9,800
Of this: Increasing the capital of the Hungarian Investment and Development Corporation	8,000
Privatization expenditures (consulting fees, appraisals, warranties, guarantees)	11,800
Payments to local governments after inner city lands	300
Establishment of the Credit Guarantee Corporation	4,000
Establishment of the State Property Management Corporation	7,000
Creation of workplaces related to privatization	1,000
Payments for the sale of local council enterprises	2,000
Transfers to the state budget	20,000
Transfers to Social Security	2,722
Transfers to the state budget of the state's share after state property	4,000
Returns to business corporations	3,300
Support for the World Exposition Fund	4,000
<b>Total</b>	<b>70,022</b>

#### Jan-Sep Industrial Production Report

93CH0178E Budapest NAPI GAZDASAG, UZLET, VILAG, POLITIKA in Hungarian 25 Nov 92 p 3

[Central Statistical Office Report]

[Text] The value of industrial production during the first three quarters of 1992 amounted to 1391.1 billion forints, according to the most recent KSH [Central Statistical Office] report. At constant prices this amount represents a 13.1-percent drop in the production value as compared to the same period in 1991. The rate of decline in production has slowed down during the year: the 19.5-percent drop during the first quarter was followed by a 13.6-percent decline in the second quarter, and a 5-percent decline in the third quarter.

During the first half of the year domestic sales declined to a far greater extent than export sales, but combined domestic and export sales during the third quarter came close to the previous year's level. The volume of production during the first three quarters fell behind the previous year's volume in every branch of industry, and the greatest decline occurred in the foundry and machine industries, where current production levels did not even amount to 70 percent of the 1991 levels. On the other hand, export sales of foundry and light industry products, as well as construction materials have exceeded last year's levels, while exports by the three main industrial

branches representing 70 percent of all industrial exports—machine industry, chemical industry, food industry—have declined.

Nine specialized branches of industry have increased their domestic sales volume during the first nine months of the year, while the domestic sales volume of 53 specialized branches declined. During the same period selling prices rose at a substantially lower rate—by 9 percent—as compared to 31.9-percent price increases during the same period last year. The price indexes of specialized branches of industry varied within a range of 76-135, prices were decreased only in regard to bauxite mining and crude oil derivatives.

#### State Enterprise Management Buy-Outs Discussed

93CH0123A Budapest FIGYELO in Hungarian  
5 Nov 92 p 20

[Article by Judit Durst: "Green Light to Management Buy-Outs"]

[Text] The State Property Agency (AVU) has little choice but to cooperate with the managers of the enterprises it has been left stuck with if it wants to sell them while still "standing." This was the main conclusion drawn by the Managers Association at a recently held conference on managerial ownership.

While in West Europe and North America the number of management buy-outs has been drastically declining, in our country it appears that the stage has just been set for them to start flourishing. The demand has long been there—more and more people would like to become owners of their enterprises—and there is no lack of potential supply either. The question is whether or not the two can be brought together using the necessary market tools.

This is precisely what the experts of the State Property Agency are working on right now. According to the plans, the draft privatization policy to be put before parliament next week will already include several new supply techniques that can put potential domestic investors in a "scoring position." Deputy State Secretary Imre V. Csuha repeatedly made the point during the conference that there would be qualitative changes taking place in the privatization process, and that management would henceforth have to play an important role in the "removal of state controls."

At the same time, the president and CEO of Budapest Bank Lajos Bokros also expressed some concerns "as a banker" about the idea of management buy-outs. Through the glasses of a financial expert the main problem with this concept is that the enterprises privatized in this manner are deprived of an infusion of additional capital. True, the president also acknowledged that there were situations in which management buy-out was the expedient way to go. These include cases where the managers' expertise plays a key role in the continued operation of the enterprise; where the external contacts of management translate into real business value; or where the enterprise is so successful that it does

not need an infusion of new capital. For a buy-out to be successful it is essential for management to have a business strategy laid out for at least three to five years. According to the head banker a successful management buy-out also requires the state to leave a portion of its privatization earnings with the firm, or to offer preferential credit terms of which the buyers can take advantage.

"Most enterprise managers would like to avoid competitive bidding, i.e., having privatization bids compete against one another. However, they should not count on it to go away! The AVU continues to insist on following the bidding process," the applicants were told by AVU president Lajos Csepi. The legal director of the property office Dr. Lajos Vargedo also added that it was owing precisely to these strict property protection principles (i.e., bringing in the public, and continuing the bidding process) that of all the countries in East Europe we have had the fewest scandals involving people trying to preserve their former influence. Besides enterprise managers have no reason to fear competitive bidding, for they are the ones (ideally speaking) who best understand their firms and know about its hidden reserves, hence they have the best chance at submitting a suitable bid.

In connection with the submission of bids the most confusion seems to stem from the fact that the AVU itself is not quite sure what order of preference to apply to the various techniques. How will a 100,000 forint leasing offer compare with a 10,000-forint cash offer? Or should it give preference to an MRP [employee stock ownership program] made with E-credit over a buy-out offer made in compensation coupons. So many unanswered questions! One thing, however, is for certain: Privatization by any technique is to be preferred over no privatization at all. For the most costly prospect of all is to see a firm—not belonging to a real owner—go bankrupt senselessly.

But should we also not be concerned that if management buy-outs are allowed to go unchecked, managers will become increasingly tempted to allow their own enterprises to falter so that later they can move in and buy them up for as little as possible? asked somebody from the participants in the conference podium debate. This "possibility which earlier statutes had indeed failed to eliminate" was confidently dismissed by the representatives of five enterprises currently experimenting with management buy-out (MBO). Moreover, by the end of the debate all felt that "they had learned another lesson." Judging from one another's examples, they felt afterwards that they could have purchased their enterprises for less than what they had paid for them.... People never feel that they have made the best possible deal.

The management of the Szombathely-based Agroker, Inc., for example, is now convinced that it had made too good an offer to AVU compared with the competing foreign bidder. While the latter had offered to pay only 50 percent of the face value of the company's stocks, the managers submitted an 80-percent offer, which was the amount they ended up paying for their own enterprise. It

is true that the other enterprise managers involved in buy-outs did not have to worry about any special competition. The employees of the Transelektro foreign trade enterprise, for example, were the only bidders submitting an offer to AVU. "In the absence of other applicants there were no opportunities to bargain over the price, so the property appraisal was taken as the starting privatization price. In retrospect it seems that we paid more than we had to. But we have no regrets, as we were fighting for ourselves," said the legal adviser Dr. Katalin Rubovszky. Nearly one-fifth of 90 percent of Transelektro's shares were bought by 144 employees, and the rest of the enterprise was purchased by 14 managers. Any employee, who on the basis of a strict point system was able to prove that he had been a productive and important contributor to the performance of the enterprise was eligible to join the circle of proprietors.

The selection took place similarly at the Kopint-Datog enterprise. In that institute, which had been incorporated last June, 87 "qualified" employees had been given access to stocks, on the basis of a strict system of conditions. According to the plans after November 1993, employees will be able to acquire over 50 percent of Kopint's stocks.

At the end of the conference the director of the Management Ownership Research Institute of Nottingham University gave an overview of the lessons they have learned from management buy-outs in England. In Great Britain 500 MBO's are registered each year, only 5 percent of which involve the state sector. Recently the tendency has been toward the purchasing of large firms in smaller increments. In the British professor's view this option was worth exploring in Hungary. According to one practice that has worked well in England, the state would sell the enterprise at a price lower than its actual value in the hope that by making the firm temporarily viable in this manner it will someday be able to pay more into the state treasury.

In closing, the British professor warned that no buy-out was eternal. MBO's also have their own life cycles. In general, most of them continue to function for a little over seven years, although it often happens that after only three or four years merger into a larger industrial group becomes inevitable.

#### **Mandatory Declaration of Assets Discussed**

*93CH0121A Budapest FIGYELO in Hungarian  
5 Nov 92 p 14*

[Article by Janos Dobszay: "Declaration of Assets—State Indiscretion?"]

[Text] Irrespective of how the Constitutional Court will rule on it, the recent announcement concerning the mandatory declaration of assets is a clear indication that the government does not trust its own citizens.

Last December, the lawmakers signed what essentially amounted to a blank check, when in discussing the issue of tax compliance they authorized the government to

choose its own timing for ordering the mandatory declaration of assets. Despite the fact that some had predicted the announcement of the pertinent government decree to come already in July, we have seen a slight delay in that original projection.

At the government spokesman's briefing held after the announcement, the president of APEH [Tax Compliance and Finance Control Office] explained the choice of the 30 November deadline—which will probably be “postponed” again—by insisting that from the technical standpoint it appeared to be the most realistic target date: By that time the tax authority will have processed last year's personal income declarations, and the next rush would not come until some time later. (We should add here that in an earlier statement the president of APEH “would have preferred” to see 30 September as the target date.)

This rational argument, of course, is further supported by the assumption that in the government's eyes inflicting a shock on society by simultaneously introducing a two-tiered sales tax and the mandatory declaration of assets probably was not the most expedient thing to do. He could make this argument because the lawmakers had handed the government a check which it could decide when to cash by taking into account the prevailing political sentiments with which it might be received, thus preventing a fiasco. With the “intervention” of the Constitutional Court, of course, this deadline has now become uncertain.

#### Foreign Examples

Proponents of the declaration of assets decree like to point out that it is the most effective way of detecting invisible income. For, the argument goes, requiring everyone—and later probably only certain individuals—to declare their assets will enable the authorities to determine whether or not the incomes stated as the bases of tax declarations are commensurate with the accumulation of assets during a given period.

The Italian finance ministry has used this same logic recently, when—presenting the same arguments that have been made in Hungary—it announced the implementation of the so-called “income determinant” claiming that it would help to improve the balance of the budget. Starting this fall, Italian citizens will start filling out a printed form on the basis of which a computer program will identify possible discrepancies between income and assets.

Authorities in Britain have chosen a different course: There no one has been or is likely in the future to be required to make a declaration of assets. From our vantage point it may appear that the financial experts over there are missing a great opportunity; however, according to the philosophy of the British, individuals should be encouraged to build wealth and this may be psychologically hindered by such an administrative measure.

So looking at the international examples it is clear that we can find examples both in support of and against the idea of requiring people to declare their assets. There are also certain characteristics unique to our situation that should be taken into consideration when assessing the social effects of such a measure.

The first, and perhaps most important factor to consider is that we live in a country, where—by a kind of social consensus—tax fraud has not been considered a morally reprehensible offense; in fact, in certain circles it is viewed almost as a virtue. Although for now virtually every public figure is trying to convince us that the declaration of assets just made mandatory will not be followed by new taxes, the citizens have little doubt that if it does not happen now, it will happen later.

#### Traditions

Experts of the Innovation Chamber have recently submitted to the government a set of observations in which—among other things—they speak critically about the prevailing tax philosophy by calling attention to certain relationships between tax policy and tax morale. The authors of the document point out that “renitency” in our country boasts traditions that go far back in history. During the extended historical period in which this “tradition” became an integral part of our national consciousness, there were two important factors at work.

Initially, taxation did not apply to the privileged classes, and when they too became subject to it, tax resistance became a symbol of national sovereignty. The other motive has to do with the fact that as a rule, taxes were used by the prevailing regime for purposes that were detached from and were virtually beyond the control of the taxpayers, purposes that seldom coincided with their immediate needs. In modern societies, according to the experts, tax discipline stems from the fact that the manner and purpose of using tax revenues are acceptable to and controllable by the citizenry. In these societies paying higher taxes in absolute terms is also coupled with a kind of social recognition that those who pay more taxes also contribute more to the preservation and progress of the collective.

In our country, on the other hand, we must be prepared to see a continued widening of the gap between taxes owed and taxes collected as long as the state is unable to make clear to its citizens the importance of collective burden sharing. This, however, can only be achieved by putting our limited, centrally redistributed tax revenues to rational use, so that eventually the taxpayer will not look upon taxation as a form of extortion by a “stranger.” With the poor tax discipline we have now the only way in which it appears possible to collect the necessary tax revenues would be by maintaining and raising the existing high tax rates, which would only undermine attempts to strengthen the tax discipline of our society. At the same time, higher tax burdens will also lead to a decline in the number of businesses and tax payers, who are able to pay taxes and thus increase the revenues going into the budget.

It would, of course, be absurd to believe that the strengthening of tax morale is dependent solely on the size of the tax burden. It is undoubtedly true, however, that beyond a certain limit the citizen—particularly if he sees his day-to-day livelihood being threatened—will become unable to identify with the “noble” principles behind having to pay taxes, which can lead to a direction opposite from the collective sharing of burdens. If, furthermore, this is coupled with a higher than tolerable level of indiscretion on the part of the state—such as what we have in the case of this declaration requirement which makes it mandatory to declare objects and moneys that can hardly even be described as “assets” (and doing so amidst a “measured” rate of inflation)—then this may stamp out the tax morale of even those who otherwise would not resort to disobedience.

#### It May Backfire

The question, therefore, is whether or not the expected benefits—in this case the detection of invisible incomes—are proportionate to the destruction of moral assets which later may translate into measurable monetary losses, perhaps at the expense of a future government. Thus the imposition of excessive government controls will entail costs that will far exceed the—otherwise enormous—amounts of money required to enforce compliance and implement other necessary measures.

Beyond the issues related to tax morale several legal questions have arisen as well, so it is not surprising that the subject has already gone before the Constitutional Court. Many have found it peculiar that the government would seek the authority to look into the assets and financial affairs of its citizens before moving first to submit to the lawmakers its draft proposal to protect the privacy of individuals and ensure access to public information. Putting into place assurances of self-control over private information would have been an important criterion for the citizen to sense that the government felt responsible for ensuring that the information gathered about him would not fall into the wrong hands, in other words, that there would be legal guarantees in place to protect his rights.

#### Bedroom Secrets

The situation is all the more absurd since it was not long before the ominous tax debate last December that the Constitutional Court had ruled that a government proposal aimed at requiring certain former party and state officials to declare their personal assets was unconstitutional. It said that personal property was a private matter and as such it was to be treated as a fundamental human right to be protected.

Opponents of the mandatory declaration, of course, have been particularly critical of the measures aimed at restricting the secrecy of bank accounts. As one opposition representative put it: “In a society, where business secrets do not exist you cannot talk about the existence of a modern capitalist state.” Proponents at the same time insist that this is the only way to prevent the

recurrence of past instances in which some entrepreneurs would leave their bank accounts registered with the APEH empty, while putting their money into secret accounts.

There is, of course, nothing to prevent the tax payer after declaring his assets from hiding his money in reserve for a while, however—tax officials will tell you—this is by no means the smartest thing to do, as sooner or later those reserves will appear in the form of tangible property the financial source of which is difficult to prove later. Several people have felt offended by the fact that while moving to gain complete control over the incomes of its citizens, the government has tried to make a part of its own revenues invisible, by hiding them in various different columns.

It goes without saying that it will be some time before the citizenry warms up to this whole notion; they will now be forced to share even their bedroom secrets with the government, as the ridiculously low value limit does not allow even a more valuable piece of furniture to be kept secret. The question, however, is whether or not there will be enough time to implement it, as for the moment neither the forms nor the schedules are readily available.

The thing that is expected to hinder full implementation the most is the fact that many of the people required to declare will find it difficult to furnish all of the necessary administrative details. This will be particularly true in the case of jointly owned assets as people may have to really rack their brains to come up with the value of the items at the time of acquisition as well as the precise ratios of ownership. Also unclear is the status of those who forget to report an item of value on their declaration: Will the tax authority assume good faith in such instances, for example in the case of an elderly pensioner of fading memory, or not?

Some of the problems I have listed here may appear to be only technical in nature, and many of them can be dismissed with skillful propaganda. But will the agency in charge of carrying out the government decree consider it important to try to ease the—perhaps only temporary—trauma that will be felt by the citizens selected for audit? After all it is in both the agency’s and the tax payer’s interest to ensure that in these already hectic times society gets through this process without too much of a shock.

Total tax shortfall in 1991:	14.5 billion forints
Tax shortfall between 1 Jan - 30 Sep 1992:	20 billion forints
Budgetary support allocated to the implementation of the declaration of assets decree:	550 million forints
Unidentified invisible incomes as estimated by APEH:	100 billion forints

#### [Box, p 14]

Since 1988, citizens in Hungary have had the option of submitting—on a voluntary basis—declarations of

assets. To date, however, APEH has only received some 36,000 declarations in all, reflecting the status of about 63,000 people's assets. The present—and for now uncertain—declaration requirement would affect 7 million citizens, in other words anyone who has received taxable income since 1988, including pensioners. According to APEH's projections, some citizens will take advantage of the possibility to declare their assets jointly, leaving only 3 to 4 million forms to process.

APEH will be required to adhere to a strict discipline of secrecy in handling the information received. The protection of data will be guaranteed by separating the declarations of assets into three parts, i.e., by processing the pages dealing with personal data, personal property and real assets separately.

### Legislation Aims To Rescue Mining Industry

93CH0154A Budapest HETI MAGYARORSZAG  
in Hungarian 13 Nov 92 p 10

[Article including interview with National Assembly representative Dr. Istvan Szucs, vice chairman of the Committee on the Economy and future Ministry of Industry and Commerce deputy state secretary for energy, by Krisztina Pecsí; place and date not given: "The Goal Is To Rescue Mining Industry; Deputy Secretary Istvan Szucs on Legislation"]

[Text] Because of the dynamic changes in economic processes, and within them in energy, and especially in mining, the National Assembly must arrive at an important and quick decision on the rescue of coal mining. In spite of the realization of coal prices stipulated in the agreement concluded at the beginning of the year between the government and the Miners' Union, in 1992 the coal mining industry continued to be indebted. Among the eight mining companies, seven are under liquidation. During the liquidation procedures the company in Tatabánya came to an agreement with its creditors. According to the agreement, the creditors will receive company property for a part of their demands; the other part will be refinanced, and the interests will be canceled. Even so, it is very likely that even this company will be liquidated in the summer of 1993.

The mining law enacted in 1960, which is still in force, named as its goal the building of socialism and the fulfillment of the needs of the national economy. This year, the government submitted its bill on mining, which is currently being discussed in parliament. The bill aims at establishing rules for mining mineral resources, which would be in harmony both with the protection of life, environment and property, and the interests connected with managing mineral resources.

We asked Dr. Istvan Szucs, vice chairman of the parliamentary Committee on the Economy, whom the minister of industry and commerce appointed deputy state secretary for energy as of 1 January 1993, about the bill under discussion.

[Pecsí] Which questions of operation are waiting for a solution to be determined by the National Assembly?

[Szucs] The prerequisite for a satisfactory solution of the fate of Hungarian mines is a mining law enacted by parliament, which enables the acceleration of entrepreneurship, the inclusion of domestic and foreign capital through privatization, guarantees for life and health, the protection of the environment, and the discovery of new places of occurrence. Due to the irresponsible industrial management of the past decades, the companies went bankrupt and ran into debt. The indebtedness of the mining companies is practically identical with the entire value of their property. Consequently, there are problems connected with legislation and privatization: Contrary to all rumors, Hungarian mines are not owned by the state, but by the creditors. In order to make the mines salable and presentable, legislation must provide the necessary backdrop. One of the main criteria is that mining is not an exclusive state monopoly, but at the same time, the state retains this right in the future. With the difference that the law enables the state to relinquish this right to someone else, conforming to the circumstances of the economy. In the form of concessions or, if this is not possible, in a more liberalized form, it relinquishes the right of mining to entrepreneurs. Consequently, private persons and industrial corporations can engage in mining, but they must submit part of the resulting extra profit to the state in the form of a so-called mining allowance. Another goal of the law is to enable the further operation of mines which are currently deeply indebted. There is something promising: the mine-power plant relation. If the mine can be made profitable after the bankruptcy proceedings, it could be linked to a power plant of the area in a way that the electric energy as a final product could be produced at a reasonable price.

[Pecsí] Many people think that the law will determine the fate of miners. After reading the bill, I think that its goal is to promote mining. What essential solutions are possible to do this?

[Szucs] The mining law belongs to the category of industrial law, and is at the same time a branch of concession law. It is the first industrial law to be discussed because the government wants to solve the destiny of mines, which are a center of crisis, in a satisfactory way. Once this happens, the subjective rights and interests of miners must be served, as well; this will be the task of a law to be drafted in the future. Mining can be based on two principles. According to the first, the right of mining belongs to the owner of the land; according to the other, the right to mineral resources belongs to the state. Now the government proposes that the right of mining be connected to the resources, and not to the real estate. And if the place of occurrence is in private property, the owner should be reimbursed for damages caused by mining, or the real estate could be bought from him by the mining company. The law asks that the owners provide guarantees for repairing damages to the natural environment, to settle damages by mines. An important consideration is that an official status was awarded to geothermic energy, i.e., to underground hot water, which is suitable to be used not only as

medicinal waters, but its heat could be utilized to produce energy. Articles were born about the regulation of mining natural gas and oil, which will also encourage the building of pipelines necessary to store and transport these products. Free access will be declared in this area as well, i.e., the partial creation [as published] of state monopolies.

[Pecsi] Several people say that the law on concessions weighs on the mining law.

[Szucs] The preparation of the law was preceded by a broad professional discussion, with the participation of experts from the SZDSZ [Association of Free Democrats] and the MDF [Hungarian Democratic Forum]. It is naturally connected to the Code of Civil Law and the law on concessions. Answering the question, I think that the law on concessions does not weigh on the mining law because there is a possibility for an optimal proportion between mining, which is under the obligation of a concession and other liberalized mining activities.

[Pecsi] Which professional organizations will have to be created?

[Szucs] A central organization of state administration will be created, called Hungarian Bureau of Mining, together with its organizations in the countryside, the district inspectorates of mines, which are grounded in historical tradition. The creation of the Bureau will change the status of the Central Geological Bureau. So far it was an authority; afterwards, this institution and its offices in the countryside will be altered in a way that its status as an authority will cease and it will become a professional counseling agency. A great portion of its authority will be assumed by the Hungarian Bureau of Mining. The Geological Bureau will carry out its professional, scientific, counseling, and engineering tasks under the name Hungarian Geological Foundation.

### **Environmental Impact of Energy Policy Assessed**

*93CH0120C Budapest FIGYELO in Hungarian  
5 Nov 92 (Environmental supplement) p 1*

[Article by Gabor Bartus: "Full Steam Ahead, but in What Direction?"]

[Text] The government has recently submitted its proposed energy policy to the National Assembly, slated to be valid until the millennium. Directly or indirectly, the methods of energy production and energy use affect, for example, employment and health conditions. The following is an attempt to briefly describe the environmental impact of the proposed energy concept.

The government is planning to initiate a large-scale power plant development program in order to satisfy energy demand resulting from the need to balance economic growth with production and consumption, and beyond that, because it is necessary to scrap certain old power plants. As a first step in this developmental process some small, natural gas-fueled coupled-cycle units would be built (flexible system development)—to

provide energy until a new basic power plant becomes operational. The proposal recognizes three alternatives.

The first alternative calls for the expansion of nuclear power plant capacities; under the second alternative a power plant would be supported by the Bukk-Abrany lignite field; the third alternative calls for the construction of a power plant fueled by imported mineral coal. The government plans to mitigate the effects of energy production on the environment by way of extensive environmental protection, i.e. by using gas scrubbers, filters, etc.

### **Energy**

Environmentalists dealing with energy production and use in both the developed countries and in Hungary generally recognize the fact that the damaging environmental effects created by the energy sector can best be ameliorated or significantly reduced as a result of comprehensive energy saving programs and increasingly efficient energy consumption.

Accordingly, the best energy is the one we do not even produce. And we should produce the energy that has to be produced with the least pollution. Until solar energy use applications cannot be made available on a large scale, we should use fossil fuels in a manner that is more gentle to the environment.

If we take a coal-fueled, condensation-type power plant with a 30-percent efficiency rating as the basis, we could increase the efficiency index to 40 percent by changing over to fluid-packed fueling or to coal gassification prior to combustion.

If thereafter the heat is also utilized in the coupled-cycle instead of being condensed, the combined total efficiency index could be as high as 90 percent. This would mean that after converting a Hungarian coal-fueled power plant, it could produce 1.5 times more electric current than before, while simultaneously, the power plant would also produce a significant amount of heat. Put differently: The same amount of energy could be produced with far less harmful substance emissions.

A consistent implementation of economic structural transformation could free rather large reserves. It has been said many times before that the energy intensity of each unit of national product produced by the Hungarian industry is two or three times as high as the energy intensity of units of national products produced by the industries of developed countries. We could save on both energy and pollution by developing a structure that is competitive in the international marketplace.

The amount of energy wasted by bad insulation, or as a result of low efficiency electrical household appliances is also significant. Accordingly, finding methods to most efficiently reduce energy intensity must be regarded as the most important strategic issue.

### **Dead-End Street**

The fact that in the sequence of scheduled tasks, preparing for the construction of a basic power plant ranks

third, while energy conservation ranks last, well reflects the value system espoused by politicians responsible for developing energy policy.

Our per capita 1991 energy consumption of 110 GJ (gigajoules) would be enough to produce a per capita GNP worth about \$5,000-\$6,000. Since we are quite far from reaching this GDP value, expanding our energy production capacities does not appear to be justified. The development of larger capacities may be needed only after shutting down the Paks nuclear power plant, but this does not call for urgent construction projects during the period prior to the year 2000.

Basic power plant construction should be avoided even more because the realization of any of the alternatives offered by the government would heavily burden the already bad condition of our natural environment. If, for the purposes of this discussion, we disregard the alternative with the least chance—the one based on imported coal—the environmental impact of the two remaining alternatives could be summarized as follows.

The quality of domestic lignite (its caloric value) is rather low, while its polluting potential is huge. From among fossil fuels, lignite emits the greatest amount of carbon dioxide per unit of electric energy produced. Starting up a power plant like this (with a planned production level of 1,200 megawatts) would be tantamount to torpedoing every effort made thus far to reduce the glass house effect.

We must also mention the destruction of the scenery that accompanies surface mining. The sole advantage of such an investment would be continued job opportunities for coal miners.

The same purpose is being served by another idea advanced by the government, according to which power plants would be integrated with the coal mines on a regional basis. This measure would remove the freedom of energy producers to purchase better quality coal from either another part of the country or from abroad, which they would do in order to find the most efficient and least polluting fuel. The question is, however, whether the lack of ideas, and the helplessness manifesting itself in this regard should be veiled in the struggle against unemployment by "solutions" that destruct the environment?!

The most effective argument advanced by those who support nuclear power plants is that neither carbon dioxide, nor other pollutants (sulfur dioxide, dust, soot, etc.) are emitted in the course of nuclear energy production. From a practical standpoint, total security can be achieved by using appropriate technologies. No one argues with these contentions.

The government regards as its most important problem the placement of highly radioactive waste (burnt-out heating elements). Experts in this field believe that as of today subterranean storage is the sole, available alternative.

To understand the magnitude of this task one should know that 3-4 million years are needed to reduce the radioactivity of heating elements to be equal to that of mined uranium ore, even though they regard only the first 100,000 years as truly critical. At the same time, however, geological formations which provide secure conditions for the storage of nuclear waste for such a long period of time are rather rare. We would have to make such rare finds in our small country, too, because the direction taken by changes in international rules point toward requiring each country to deposit its own nuclear waste within its borders. Not to mention the fact that the agreement that guarantees the exporting of the waste produced at Paks to Russia is soon to expire.

An additional disadvantage presented by nuclear energy is its cost. This cost is incurred not by the MVM Rt. [Hungarian Electrical Works Corporation], but by society, as a result of depositing waste or dismantling power plants after their useful life.

Supposedly, the price of heating elements is also going to increase, because at a time when environmental rules are being made more stringent, it would be inconceivable not to include the costs of significant environmental damages caused in the course of producing heating elements as part of the price of heating elements.

An increasing number of people believe to have proof that nuclear energy development is incapable of reducing the strengthening of the glass house effect to the extent proclaimed by nuclear energy advocates.

#### Who Understands This?

Anyone reading the government proposal would turn his head left and right in confusion created by the flood of mutually contradictory concepts. For example, why should we develop a basic power plant network when even the writer of the proposal concludes that "Decisively as a result of the power plants we have, which function as basic power plants, the flexibility of the system is inappropriate also in the international context"?

If the construction of combined cycle blocks could keep up with increased demand until the year 2000, why would the same not hold true after the year 2000? How should one interpret the need to downscale coal mining, if the demand for coal to be presented by a future lignite power plant overcompensates the demand presented by coal-fueled power plants slated to be scrapped, and as long as the proposal regards the supply of domestic fuels as having strategic importance?

One thing is certain: The construction of a basic power plant could cause an awful lot of environmental problems. And if we recall the above-mentioned broadly applicable opportunities to conserve energy, we find that the debate concerning a basic power plant could become meaningless as a result of efforts to reduce energy demand.

Unfortunately, while the government proposal contains pages of analyses dealing with the construction of power plants, one only finds partial sentences about the possibility of increasing efficiency.

### Components of 1993 Budget Draft Outlined

93EP0091A Warsaw GAZETA WYBORCZA in Polish  
20 Nov 92 pp 1, 14

[Article by Ernest Skalski and Waldemar Kumor: "The Coming Budget"]

[Text] *Yesterday, the government completed its work on the 1993 budget draft. In the immediate future, the budget law draft will be presented to the Sejm.*

An increase in the receipts of next year's budget is to occur chiefly by raising taxes and streamlining their collection, as envisaged by the government in the draft 1993 Budget Law approved yesterday.

According to the government, 1993 budget receipts will reach 433.5 trillion zlotys [Z], of which Z360.5 trillion will come from taxes. As for budgetary spending, the government estimates it at more than Z514.5 trillion. The budget deficit is to decrease to Z81 trillion—that is, to about 5.1 percent of the GDP. (This year, the deficit will be at least 8 percent of the GDP.)

Next year, the average level of the prices of goods and services will be approximately 39 percent higher than in 1992, the government estimates. The principal cause of the price increases will be the replacement of the sales tax with the value-added tax.

If the parliament accepts this, a 50-percent tax will be levied on personal incomes exceeding Z194.4 million a year (Z16.2 million monthly).

As for the other tax gradations, despite the inflation and contrary to the law in force, the government proposes to freeze them at their current level.

In addition, the base for the valorization of old-age pensions and annuities is going to be reduced to 91 percent of the average wage for the quarterly period preceding the most recent valorization.

The government estimates that, next year, approximately 600,000 people will become jobless, and total unemployment will rise to 3 million. Because, in the government's opinion, an increase in unemployment is inevitable, it is proposed that as, of 1 January 1993, the premium payable to the Labor Fund, as withheld by enterprises from employee wages, be raised from 2 percent to 3 percent. Next to the state budget, the Labor Fund is the principal funding source for unemployment benefits.

The principal objectives of the government's policy in 1993 will be to support the private sector, spur an economic boom, and protect the zloty—we read in the Budget Law draft. The government attaches importance to streamlining the effectiveness of Treasury and customs offices and their audit departments, as well as the procurature, the commercial-law courts, and the police and the military. Accordingly, it proposes to spend more on those institutions than it did in 1992.

In the next issue of GAZETA WYBORCZA, in the local sections, we shall show which funds from the budget will be received by the voivodships.

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Let us say clearly at the outset that the envisaged Z433.5 trillion in budgetary receipts simply will not materialize because one way of getting it is to be by raising taxes. This usually does not succeed, and there is no reason why it should succeed in this country. It is great that the customs and tax services will be expanded and strengthened, but it may turn out that they will find little to collect.

That is because higher taxes cannot be reconciled with spurring economic revival, especially in the private sector, a revival that, quite justly, is the government's objective.

The economy is spurred by means of demand and investments. If average incomes are reduced by higher taxation, demand is curtailed. If the affluent are similarly penalized, investment is curtailed.

True, the budget needs money badly, but, this way, not only will the economy be hurt but also the expected receipts will not materialize.

(The freeze on tax gradations will affect chiefly the lowest wage earners, Krzysztof Hagemajer contends.)

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### Receipts and Outlays

The government assumes that budgetary receipts will reach Z433.5 trillion (that is, nominally, more than 40 percent higher than in 1992), and spending Z541.5 trillion (31.6 percent higher).

### Prices

According to government estimates, inflation in 1993 will be approximately 39 percent (this year's inflation is to be 46 percent).

The highest price leaps will occur in the second half of 1993 owing to, among other things, the introduction of the value-added tax in July.

### The Dollar and the Interest Rate

In the government's opinion, next year the average exchange rate of the dollar will be Z17,030, and, in December 1993, it will reach Z19,000.

The government anticipates a gradual decrease in savings and loan interest rates. The average prime interest rate (charged to the bank by the National Bank of Poland) is to be approximately 28.7 percent. (The average prime interest rate in December 1992 will be 38 percent, and the average interest rate on 12-month commercial loans about 45 percent.)

### Earnings

The average monthly wage in 1993 is to be Z3,870,000 (in real terms, 2 percent lower than in 1992). The average

monthly wage in manufacturing should be Z3,990,000 (a 1.2-percent decline) and in budget units Z3,350,000 (a 2.3-percent decline). The government expects that wage increases in budget units will be introduced in April and September 1993.

#### Unemployment

Next year, unemployment is to increase to about 3 million. (In December 1992, unemployment will be 2,390,000, or 515,000 more than in December 1991.)

#### Income Tax

Personal incomes are to be taxed more steeply. Under the government draft, people whose annual incomes exceed Z194,400,000 will pay a 50-percent tax. In addition, the government intends to freeze at the 1992 level the remaining tax gradations.

Also proposed is a change in the system for collecting advance personal income tax payments: Instead of the present rule, that 20-percent advance payments be made each month and the balance paid by 30 April of the following year, higher advance payments must be made as early as on the month following the month in which the tax gradation is exceeded.

Income equal to up to four monthly wages is to be tax-exempt if spent on purchasing stock in privatized enterprises. In 1992, income spent for this purpose is to be entirely tax-exempt.

The income tax rate levied on legal entities is to be maintained at its current 40-percent level.

The government wants to maintain the existing income tax rebates for entities operating in regions threatened by high unemployment. It is proposing tax relief for investors who begin to operate and create new jobs in these regions. The government also proposes a tax-exempt status for gminas and gmina associations.

#### The VAT

The government assumes that a uniform value-added tax (VAT) will be introduced in July, replacing the current sales tax.

Three VAT rates are proposed:

- Basic rate, 22 percent.
- Discount rate, 7 percent, to apply to foodstuffs, means of agricultural production, pharmaceuticals, printing-plant products, certain kinds of children's merchandise, and, temporarily, materials and operations relating to housing construction, along with rebates applicable until 31 June 1994 for household electricity and central heating.
- Zero VAT, to apply to exports of goods and services.

In addition, the minister of finance will be able to apply a zero VAT rate to certain domestically sold merchandise (this concerns, among other things, farm machinery, fertilizers, crop protectants, and pharmaceuticals).

#### The Tax on Wage Increases and Enterprise Assets

The government envisages the possibility of reducing the burden of the tax on wage increases for exporters (by cutting that tax by 1 percent for every additional percent of the share of exports in overall volume of sales). It also assumes the possibility of totally exempting from this tax the companies that are prompt in settling their obligations to the budget while, at the same time, improving the ratio of their gross profits to expenditures.

Until the changes in the system of collecting the tax on wage increases and state enterprise assets, as proposed in the government's "Assumptions of Socioeconomic Policy" are introduced, the related rules of tax collection remain effective. This also applies to one-person Treasury companies. Thus, the tax on enterprise assets will amount to 10 percent of founding capital, and the tax on stock capital 6 percent.

The government expects that these principles will cease to apply in mid-1993. The new tax on enterprise assets is to be computed according to the rule that 1 zloty in profits distributed equals 1 zloty of the tax on assets.

#### The Excise Tax and the Gambling Tax

A special excise tax is to apply to sales of alcoholic beverages, tobacco products, and fuels.

Likewise, income from casinos and lotteries is to be separately taxed.

#### Budget Units

The government wants to change the system for funding these units. Health service, public administration, and social welfare are to be reformed. The budget draft assumes that the Council of Ministers will be able to define the pay ceilings for discrete budget units.

In estimating the funding of the budget units, the government assumed, among other things, reducing employment in budget units by approximately 5 percent and restricting overtime pay.

The average monthly salary of civilian budget-unit employees of the general government administration will be approximately Z3,480,000, and the average salary of the professional military and members of other uniformed services will be approximately Z6,340,000.

#### Social Services and Welfare

The government proposes for 1993 to reduce to at least 91 percent from 100 percent of the average monthly wage the base for valorizing old-age pensions and annuities for the quarterly period preceding the date of the valorization. In the government's opinion, this shall not violate the regulations governing the minimum pension level. In December 1993, the number of old-age pensioners and annuitants receiving ZUS [Social Security Agency] benefits will be 210,000 more than in December 1991. The number of persons eligible for farmers' old-age pensions and annuities will increase by 80,000.

Family allowances will not be changed: As in 1992, they will amount to Z167,000 monthly. Similarly, the rules for cost-of-living increases in minimum retirement pensions and annuities under the workmen's compensation system will not change.

There will be no change, either, in the social security premium, with the basic premium set at 45 percent, or 35 percent for persons employed directly in farming.

The government envisages an increase in the scope of social protection. The number of persons eligible for regular allowances will increase by 45 percent; the number of persons applying for drug-price subsidies will increase, and some of the unemployed will have to apply for welfare support. The Labor Fund premium, which, next to the state budget, is the principal funding source for unemployment benefits, will be raised from 2 percent to 3 percent. In the government's opinion, unemployment benefits may not exceed 85 percent of the overall expenditures of the Labor Fund.

Unemployment benefits are to be calculated in 1993 according to the same rules as this year. The government expects that, next year, only 40 percent of the registered unemployed will have the right to collect unemployment benefits, and that the average benefits will amount to Z1,260,000 monthly.

#### Subsidies and Subventions

Next year, subsidies for car prepayments are to be resumed. It should be borne in mind that the government is legally bound to subsidize one-half of the price of

a Fiat 126P or an FSO [automobile plant] car for the 1,500 people who in the 1980's purchased so-called prepayments on these cars.

Agricultural production is to be subsidized to offset the consequences of changes in the prices of the diesel fuel used in direct farming operations. These fuel subsidies are to apply to everyone who pays the farm tax.

Until new regulations are worked out, the rules for granting credit subsidies for land purchases and management, the purchases of fertilizers and pesticides, procurements and the stockpiling of farm products, housing construction, the purchases of wheelchairs and, especially, modified cars for mobility-impaired persons, and the purchases of cars for persons caring for the incapacitated will remain unchanged.

#### Privatization

The government estimates that, next year, income from the privatization of state enterprises will amount to Z8.8 trillion—that is, nominally it will be higher by about 50 percent than in 1992. The state budget next year is to receive Z4.6 trillion from privatization through capitalization, Z3.8 trillion from privatization through liquidation, and Z500 billion from the privatization of banks (no allowance was made for the receipts from mass privatization).

#### Investment

The government does not intend to begin any major investment projects, and, in real terms, the value of enterprise subsidies will increase compared with 1992. At the same time, the government proposes that monthly progress reports be required for investment projects costing more than Z50 billion that are cosponsored by the state.

Planned Price Increases in 1993

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Electrical energy	—	12%	—	10%	—	—	22%*	10%	—	—	10%	—
Gas	16%	—	—	5%	—	—	22%*	5%	—	5%	—	—
Fuel oils	8%	—	—	8%	—	—	—	8%	—	—	6%	—
Ready-to-use medicines	—	—	—	25%	—	—	—	—	—	5%	—	—
Central heating and hot water	—	26%	—	—	15%	—	—	15%	—	—	15%	—
Housing rents	—	—	50%	—	—	—	—	20%	—	—	—	—
Radio and TV subscription fees	20%	—	—	—	6%	—	—	—	5%	—	—	—

\*Due to the introduction of the VAT

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