**Éva Voszka[[1]](#footnote-1)**

# Nationalizations in Hungary – in an international context[[2]](#footnote-2)

*Public ownership expanded in many countries after 2008, mainly but not exclusively in form of bank recapitalizations. The paper compares the large scale Hungarian nationalizations with this European trend. It argues that despite many similar elements regarding sectors, methods and even governmental objectives in general, ownership changes in this particular case are integral parts of a comprehensive governmental policy, aiming at extending the role of the state, centralizing decision-making and redistributing wealth.[[3]](#footnote-3)\**

JEL Codes: H 12, P52.

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Great Recession of 2008 was accompanied by massive nationalizations throughout Europe, mainly as a result of recapitalization of financial institutions. The extension of public ownership was not unusual even in the developed regions in times of crises, as in the 1930s and in the 1970s. The reasons were always complex,[[4]](#footnote-4) covering political and social objectives like ensuring security, preference for collective criteria over individualism, national sovereignty (including reinforcement of domestic firms and entrepreneurs), reductions in income differentials, or redistribution of development resources. It was economically important to remedy market failures – to bail out firms, maintain employment, control monopolies more closely – boost the development and modernization roles of the state, encourage economic growth, and conduct an anti-cyclical economic policy.

In Hungary, there were cases of firms becoming state-owned even before 2010, sometimes imposed by contracts and often temporarily, but the extent changed thereafter. The shares owned by the Hungarian state more than doubled in five years. They include energy giants, banks large and small, public utilities and tiny stores, profitable firms and those facing bankruptcy, whole packages and minority holdings. The question is whether Hungary is following the general trend, or whether these ownership changes are part of its “unorthodox” economic policy, departing from market-economy principles. Recent Hungarian nationalization is analyzed in several papers[[5]](#footnote-5) - we will focus on the international comparison is something new.

## Hungary as a frontrunner in nationalizations

It is difficult to estimate the size and the changes of state assets. There is no generally accepted definition, so that the data of countries differ in content, taking into account the form of the firms (listed, non listed or statutory corporations), the share of public owners (majority or minority position), the administrative level (central government or municipalities). As every comprehensive analysis points out, the international statistics are unreliable and succeeding surveys are not really comparable.[[6]](#footnote-6) With this in mind, let us see some figures, to convey orders of magnitude.

The OECD gathered data on the basis of questioners in 27 counties for 2007–08, just before the crisis, and reported that the average ratio of state assets to GDP was around 15 percent (*Christiansen* 2011). In the same period the value of Hungarian state ownership, managed by the Hungarian National Asset Management Company (MNV),[[7]](#footnote-7) the holding exercising state ownership rights, amounted to HUF 1.2 trillion, equivalent to 4.7 percent of GDP, showing a rather low level in this comparison. However, it might be distorted by differences in definition and in asset valuation.

The EU provides a comparable dataset on the proportion of state owned equity share value to GDP, broken down by member states.

Table 1

**Total amount of equity owned by the general government sector in European Union (2007-2015)**

percent of GDP

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| GEO/TIME | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Finland | 50,0 | 32,2 | 39,2 | 44,4 | 36,8 | 39,5 | 42,8 | 44,2 | 43,4 |
| Luxembourg | 28,7 | 28,6 | 32,7 | 35,7 | 33,0 | 38,3 | 39,8 | 40,3 | 37,9 |
| Sweden | 34,2 | 27,6 | 31,3 | 32,2 | 35,7 | 36,4 | 36,0 | 37,1 | 35,3 |
| Slovenia | 36,2 | 23,1 | 24,0 | 27,9 | 26,6 | 27,9 | 32,9 | 35,9 | 35,8 |
| Croatia | : | : | 23,5 | 25,9 | 28,6 | 28,0 | 28,9 | 31,1 | 30,9 |
| Estonia | 21,2 | 19,0 | 17,0 | 25,0 | 26,5 | 27,8 | 28,3 | 27,0 | 26,2 |
| Denmark | 21,0 | 20,4 | 21,0 | 22,1 | 22,1 | 21,8 | 21,3 | 21,5 | 21,1 |
| France | 23,1 | 17,7 | 17,7 | 18,1 | 16,7 | 17,3 | 18,6 | 19,4 | 18,9 |
| Latvia | 12,7 | 12,9 | 12,3 | 13,7 | 14,3 | 18,1 | 17,2 | 16,1 | 14,4 |
| Malta | 16,0 | 13,4 | 13,9 | 14,2 | 13,3 | 16,6 | 16,7 | 14,4 | 14,4 |
| Poland | 23,5 | 26,7 | 25,6 | 23,4 | 20,4 | 18,1 | 16,7 | 16,2 | : |
| Ireland | 14,2 | 10,3 | 10,8 | 11,6 | 12,3 | 13,7 | 16,4 | 20,2 | 22,2 |
| Czech Republic | 29,0 | 22,0 | 22,3 | 21,8 | 18,0 | 16,7 | 15,5 | 15,8 | : |
| European Union | 13,6 | 12,1 | 13,1 | 14,3 | 13,9 | 15,3 | 15,0 | 15,2 | 14,9 |
| Euro area | 13,2 | 11,7 | 12,3 | 13,4 | 13,0 | 14,3 | 14,5 | 14,7 | 14,7 |
| Portugal | 10,9 | 11,0 | 12,4 | 16,8 | 15,9 | 17,6 | 14,4 | 17,3 | 17,4 |
| Hungary | 11,1 | 11,7 | 11,6 | 11,8 | 17,3 | 14,4 | 14,2 | 14,8 | 14,7 |
| Netherlands | 10,3 | 16,7 | 13,9 | 13,7 | 12,8 | 14,7 | 14,2 | 13,9 | 14,4 |
| Austria | 13,6 | 12,2 | 13,5 | 16,2 | 16,1 | 16,0 | 14,2 | 14,3 | 15,4 |
| Lithuania | 24,4 | 19,7 | 18,3 | 16,4 | 15,4 | 15,0 | 13,8 | 15,4 | 16,6 |
| Spain | 8,9 | 8,4 | 8,3 | 9,4 | 11,7 | 13,1 | 13,3 | 14,1 | 14,9 |
| Romania | 18,9 | 30,5 | 27,8 | 18,3 | 15,3 | 15,3 | 12,9 | 13,2 | 12,7 |
| Germany | 7,5 | 8,0 | 9,5 | 11,9 | 11,6 | 12,6 | 12,8 | 12,6 | 12,5 |
| Cyprus | 12,1 | 11,1 | 10,9 | 10,8 | 10,9 | 15,7 | 12,7 | 18,7 | 19,3 |
| Slovakia | 9,6 | 8,5 | 10,0 | 9,6 | 7,9 | 12,2 | 12,0 | 11,5 | 10,6 |
| United Kingdom | 9,2 | 10,2 | 11,9 | 13,1 | 11,7 | 13,5 | 11,9 | 11,8 | 10,6 |
| Belgium | 6,1 | 9,0 | 10,3 | 10,1 | 10,4 | 10,9 | 10,1 | 11,2 | 10,8 |
| Bulgaria | 12,3 | 11,4 | 11,8 | 11,8 | 11,2 | 10,8 | 9,0 | 10,4 | 10,0 |
| Italy | 9,3 | 8,1 | 8,1 | 7,6 | 7,4 | 7,8 | 7,5 | 7,4 | 7,5 |

**Source:** <http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_ggfa&lang=en>

The 11.1 percent attributed to Hungary in 2007 was somewhat lower than the European average and the 14.7 percent for 2015 is in line with it (Table 1). The average for the ten new member-states, meanwhile, was 17 percent in 2007, when Hungary’s figure was the second lowest after Slovakia, in contrast, for example, with 36 percent in Slovenia, 29 percent in the Czech Republic and 23 in Poland. By 2014 the regional average was down to 15.6 percent, but the increased Hungarian figure was still below the group as a whole.

The main deficiency of this dataset is that it precludes isolating effects of changing the volume of the assets and their value. Public ownership began to rise again after the 2008 crisis, but there was no registration of the process. According to our estimation, the range of European bank nationalization in 2008-2013 is likely to fall between €300 and 400 billion: 2.3–3 percent of 2013 GDP (*Voszka 2016*). Some nationalization occurred also in non-banking sector. These changes are hardly reflected in EU records because the parallel fall in equity prices.

Due to the uncertainties in the data and their restricted comparability, we evaluate Hungarian nationalizations by calculating the changes within the country. The growth in state assets might be estimated by *nationalization expenditures*. According to *Mihályi* (2015), the equity capital of Hungary grew by HUF 1 475 billion in 2011-2015, which is 4.4 percent of 2015 GDP. Adding to this another 285 billion for recapitalization or payment obligation in two deals (Takarékbank, E.on Gastrade), the proportion jumps to 5.2 percent. This is nearly twice as high as the EU average, although some member-states put still more into raising the capital of their banks:[[8]](#footnote-8) Ireland 38 percent of GDP, Greece 22 percent, the UK, Spain and Belgium 5–6 per cent. Of the new member-states, only Slovenia’s exceeded Hungary’s proportion, with 8.9 percent. Looking at the *growth of state ownership,* the equity capital of the state grew to near HUF 3 trillion (246 percent increase over the 2007 portfolio of the MNV) and its size relative to GDP rose from 4.7 to 8.8 percent.

It is worth noting, however, that nationalization still covered only a fraction of the private economy. Several big sectors were scarcely affected (the bulk of construction, manufacturing, non-financial services), and only less than 50 firms have been involved, not counting real estate or changes in disposal and concession rights.

In conclusion, it is likely that Hungary’s state-owned assets in the pre-crisis years were rather small relative to the developed countries or even to the new EU member-states. Thereafter the country came to the fore in Europe in its *speed* of change. The volume of assets rose in absolute terms by more than two times and nearly doubled as a proportion of GDP.

## Why to extend public ownership?

The declared aim of the European bank nationalizations after 2008 was to keep capitalism functioning, restore security, and ease the economic recession. This meant averting a banking panic and a domino effect of insolvencies, and restoring confidence. As for the nationalizations in other sectors, the justification was low efficiency coupled with rising prices and private profits, and the consequent purpose to secure supplies, to reduce state subsidies, costs and prices, and to allow closer control over the monopolies. In strategic areas such as energy, the decision-makers emphasized the need for stronger national sovereignty and increased governmental influence.

These steps were intended to harness public opposition to privatization, also evident from several local referendums as the drawbacks of privatization became apparent. On the other hand, nationalization associated with rescuing the banks was not popular either, as it was seen as the result of strong lobbying designed to protect the financial elites.

This climate of public opinion may have influenced governments to present the bank nationalization manoeuvres as *temporary* solutions. Indeed they tried to *disguise* them: they were referred to in official statements and statistics as recapitalization, rather than nationalization. The reason for the disguise, apart from public distaste, may have been uncertainty about practical economic policy and the theory behind it: the urge to strengthen the role of the state with tighter regulation of the financial markets and of public utilities ran counter to the EU’s neo-liberal style of economic policy. To this day there has been no conclusion to the theoretical and policy debate about the need to change the form of capitalism and the direction it should take. So the ownership changes cannot be fitted into a new model of capitalism either.

By contrast, the *concept* behind Hungarian nationalization seems much more decisive. The leading members of the government that took power in 2010 had made it plain before the general elections that political approach, including economic policy, would follow new lines. One starting point was a conviction that western capitalism and neo-liberalism as a whole hitherto was in crisis: faith in the omnipotence of the market was over. The state has to play a bigger role; the public interest has to dominate over individualism, speculation, and raw profit making. This meant “*overturning the old system and building a new one*,”[[9]](#footnote-9) in the economy as well. The other principle was *national sovereignty*, which included decision-making independent of international organizations[[10]](#footnote-10) and of foreign, multinational corporations, boosting domestic small and medium-sized firms, and on the strategic level, ensuring national security and security of supply: implementing a “national economic policy.”

This approach ties in with mentions of “strategic sectors in domestic hands” (*Orbán* 2009). Yet large-scale nationalization went unmentioned in the government program or in subsequent comprehensive plans. Instead it was brought in gradually and *surreptitiously*, gaining increased emphasis over time. The spread of public ownership in Hungary began in 2011, not in the depths of the crisis. So it was *not a direct means* of crisis management, in the sense that it was not designed to bail out troubled banks and firms (with the exception of a few small companies), unlike other European countries. Neither were ownership changes backed by any elaborated scenario. On the basis of a comprehensive concept, including extension of the state’s role and centralization as essential components (*Kornai* 2012), the government concentrated on the most urgent tasks. The new ways and means of expanding state ownership were taking shape gradually during their implementation.[[11]](#footnote-11)

The nationalization moves were assisted by the typically *anti-privatization views* of the general public in Hungary. The transformation was considered in many parts of East Central Europe to have been of limited success and the blame for this spread over privatization as a key component of transition. This stance was reinforced after 2010 by official efforts to stir up the public mood. Government officials spoke of expanding again “the national assets previously dissipated and squandered by mindless privatization,” and buying back natural monopolies “wrongly sold off,” so as to transform and strengthen the domestic property-owning class.

The economic aim put most strongly was to *remedy the market failures*, mainly by controlling the monopolies, improving basic services, and reducing their fees. According to one high official in the capital “There is no place in the public services for private firms, which are essentially profit-makers, and that contradicts the aim of keeping public fees within acceptable bounds” (*Szalai* 2010). In these fields and in energy the government also called for greater security of supply. The target in the banking sector was at least 50 percent domestic, albeit not state ownership (*Matolcsy,* 2010), so as to reduce exposure to foreign interests. Later appeared the aim of playing a catalyst role: if several agents could not exit the market for want of an acceptable offer, it was time for the state to enter the market.[[12]](#footnote-12) Further arguments concerned consolidating “the excessively fragmented structure of the banking system,” reaching the minimum level of the capital adequacy ratio, and expanding the supply of credit (*Magyarország Kormánya* 2015).

This might be seen as a way to stimulate growth, but the idea of a modernizing, development-oriented state is hardly linked to the expansion of ownership. Absent from the traditional aims is the reduction of inequalities, and not by chance: these conditions have been weakened by several other government measures such as flat-rate income tax, support for the middle class rather than the poorest.

Still, nationalization promises something to all and so it is not unpopular: price falls to consumers; job retention to employees; to some groups of enterprises state orders from the growing number of firms in state hands, favourable credit terms from state banks, possible acquisition of property through re-privatization; to politicians extra votes and wider sway; to state authorities broader decision-making powers. The unusual party situation undermines the capacity of the opposition to criticize, as the administration, though defining itself as civic conservative, implements important elements in the left-wing scale of values as well, while doing the opposite with other means of regulation, as mentioned already.

In short, some of the aims resemble those of European nationalizations after 2008: limiting extreme effects of private ownership and liberalism, asserting the public interest, boosting national sovereignty, and remedying market failures. The main difference is, however, that Hungary’s main purpose is to build a “new system.” Nationalization is embedded into a wider political-economic concept. The aims of changes in public ownership here show the pronounced and declared intention to *modify the form of capitalism*.

## Banks and more

Most European nationalizations after 2008 concerned financial institutions. In the first half of the 2010s, however, the scope was extended to other sectors, mainly public services and energy. One form of this was the restoration of the direct service providing role of local governments by reviewing their contracts with private firms, e. g. in German, British and French water, sewage and waste management, sanitation, and real-estate management. The other was renationalization of previously privatized firms that had appeared primarily in the electricity and gas industries of Germany, Finland, Lithuania and Slovakia.[[13]](#footnote-13)

Hungary’s *banking system* was also affected by nationalizations, although at the height of the crisis, only the partly privatized FHB Mortgage Bank *(Földhitel és Jelzálogbank)* needed a short-term increase in its proportion of public ownership, to prevent the capital adequacy ratio falling below the proscribed value, having received liquidity facility from the state (*Várhegyi* 2012). The privatization of the 1990s had brought much of the banking sector into private hands, so that the necessary capital injections, as in most East-Central European countries, came from parent banks instead of the national budget.[[14]](#footnote-14) Hence, nationalization did not come at the beginning of the crisis, but only in 2013–14. The case of Hungarian Foreign Trade Bank *(Magyar Külkereskedelmi Bank)* linked directly with 2008: one of the conditions for the state bailout of its parent company, the *Bayerische Landesbank* was that it should sell its foreign subsidiaries. With Savings Bank *(Takarékbank*, an umbrella bank over local savings cooperatives), two small privately owned banks, *Gránit* and *Széchenyi*, and the still unresolved case of *Erste Bank*, the state did not take stakes directly to forestall insolvency, while Budapest Bank is among the most stable financial institutions in the country (*Várhegyi* 2014).

So an expenditure of almost HUF 500 billion[[15]](#footnote-15) increased public property in the banking sector to almost a fifth, and in terms of total balance sheet, brought the total domestic ownership to 50 percent.[[16]](#footnote-16) Neither proportion is unusual in European terms. The level of state ownership in German banking at the turn of the century, if federal and local-government ownership are included, reached 60 percent, while Portugal came second with 25 percent (*Caviglia* et al., 2002, *Hüfner,* 2010), and the proportions in many countries increased over the crisis period. As for domestic ownership, that was 20–40 percent only in East-Central European member states, but above 80 percent in most of the developed countries (*Claessens- van Horen* 2012).

Contrary to other European countries, the main nationalization target was *not the banking system* in Hungary. The sectoral range became broader, although its composition was not unusual in the EU. The biggest expenditure, almost HUF 1 trillion, concerned the *energy sector*,[[17]](#footnote-17) including repurchase of a 22 percent stake in Hungarian Oil Industry Ltd. (*Mol*), as well as the gas industry – storage, wholesale trading, Capital City Gasworks *(Fővárosi Gázművek)* – and several small power plants. National Utilities *(Első Nemzeti Közműszolgáltató Zrt.)*, a state holding company, founded in the spring of 2015, has been steadily buying out foreign investors from  retail supply of electricity and gas to residential customers.  It is preparing to acquire distribution networks, and district heating firms, at an estimated outlay of another HUF 950 billion. Hungary, in line with some other European countries, attaches importance to other *public utilities*, mainly water management and waste disposal (Pécs, Kaposvár and Capital City waterworks, Budapest Sewage Co.). In all these cases local governments were the public recipients of firms and activities, but sometimes they subsequently had to hand over their assets or service rights to central government (as happened with Capital City Gasworks and several waste collection firms). What can be seen as *unusual* is that Hungary has taken into public hands smaller air, water and mass transportation firms, and the broadcasting company Antenna Hungaria. The state appeared also in other services, the real-estate market, and sporadically manufacturing (three small firms in the meat industry and one in clothing, Hungarian Aluminum, Dunakeszi Vehicle Repairs, and Rába Machinery Works).

## Unusual methods

After 2008, recapitalization was the main remedy in the European banking system, and state purchase or termination of service contracts with private firms in other sectors. Asset values of financial institutions and other firms were depressed by the slump in stock prices and by the recession. Other spurs to such “creeping renationalization” or “nationalization of incomes” came from stricter regulatory terms and limitation or reduction of consumer prices, for instance in Spain, France and Germany (*De Clercq* 2014), although there is no reference to these steps as preparatory to nationalization. The costs covered by the central, provincial or local budgets, coupled with other bank-rescue expenditures, led in many cases to significant deficits and increases in state debt.

Hungary’s nationalization transactions sometimes amounted to free transfers, but the commonest method was purchase*.* Interestingly, acquisitions did not damage the country’s macro financial position. The government could avoid this by drawing on supplementary funds, reducing the asset values, and pressurizing vendors.

The first means of fund creation was an act of nationalization in itself: the government took over the assets of private pension funds. Members who refused to rejoin the state insurance system in 2010 were threatened with exclusion from any future state pension benefits. So 2.8 million of them succumbed, handing over almost HUF 3 trillion savings (10 percent of GDP). The aim was to improve budget balance (by increasing current revenues) and to reduce sovereign debt.[[18]](#footnote-18) This measure had two favorable side-effects on public ownership. The state acquired *free of charge* some stock in 20 companies worth HUF 190 billion, as well as cash for further expansion. Likewise, the state did not pay for Hungarian Aluminum *(Magyar Alumínium Zrt.)*, which had caused a natural disaster.

Waterworks in Pécs was the earliest case of force being used: the company, operated by GDF Suez, was physically occupied by a newly created municipal firm. The case ended with compensation to the private operator, and the adverse publicity may also have deterred the government from taking such action again. Many analysts and most of those affected by the forced incorporation of the cooperative banks into a nationalized umbrella organization see it as expropriation without compensation, for most members have been robbed of all their rights of disposal.[[19]](#footnote-19) *Direct pressure* was also put on the owners of Dunakeszi Vehicle Repairs *(Dunakeszi Járműjavító)*. When Bombardier hesitated to sell it, the state-owned rail company, MÁV drastically cut its orders, which accounted for the bulk of Dunakeszi’s earnings. Surgutnyeftyegaz, a Russian firm which has owned 29 percent of Hungary’s oil company Mol in 2009, was regarded as hostile investor, and it could not register its stake on the grounds that its ownership structure was unclear. This is partly why Mol failed to pay dividends between 2009 and 2011. So the Russian owners gladly accepted an offer from the Hungarian state higher than the actual stock exchange price.[[20]](#footnote-20)

Even stronger and more extensive is *the indirect pressure of state regulations* and directives. In 2010, the government drastically increased the special tax on the financial and energy sectors, extending it to telecommunications and food retail. The extra revenue in that year was equivalent to 1.4 percent of GDP, much higher than in other countries. By 2015 this increased to 2.5 percent, as similar taxes were levied on successive new sectors, for instance public utility networks.[[21]](#footnote-21) Most special taxes are turnover based, so they can erode the firms’ capital as well.[[22]](#footnote-22) As with the private pension funds, the initial aim was the reduction of budget deficit, but in parallel, the government raised additional funds for further nationalization.[[23]](#footnote-23)

Apart from the taxes, other new regulations also increased business costs. Capital requirements for banks were raised, and the early repayment of foreign-currency denominated loans and their forced conversion into forints at discounted rates cost them several hundred billion. Tighter rules raised the expense of waste management, chimney sweeping and other utilities, while the providers could not recover these mounting costs from customers. Administrative prices were extended and decreased in public services, cutting costs to households in several stages by 20 percent on average. The double squeeze brought deficits to most firms, targeted by nationalization – household electricity and gas suppliers, other public utilities, and the whole banking sector. Some of them considered them *de facto* expropriation.[[24]](#footnote-24) Coupled with the general unpredictability in economic policy, it curbed firms’ activity and reduced their market value,[[25]](#footnote-25) while increasing their inclination to sell the subsidiary at a time when others were less than willing to enter the market.

Expenditures reduced in that way were partially financed by the state (or local governments). As the government goal of balanced budget was being viewed as a condition of strengthening national sovereignty, other techniques for cutting public spending arose. They included indirect acquisition of property, by routing purchases through bodies not labelled statistically as governmental: the Hungarian Development Bank, a subsidiary of it, or another state-owned corporation, often Hungarian Power Plants *(Magyar Villamos Művek)* or Hungarian Post *(Magyar Posta)*, which became shareholders in gas storage facilities, Savings Bank, for example. In some cases like Capital City Waterworks, the firm acquired had to pay for its own acquisition, by repaying the loan taken by its owner, the local government.

Nationalization processes were eased by creating *new state monopolies.*  Only firms in public ownership could thenceforth pursue such activities as strategic gas storage, national data administration, water and sewage services, or refuse collection; private companies had to exit the market by selling or abandoning their assets or concessions. Elsewhere, the monopoly brought new concession requirements (in retail and wholesale tobacco trading), or earlier suppliers were squeezed out by advantages given to certain other suppliers (school textbooks and meal vouchers).

The examples also show that *expenditures on nationalization* do not show adequately the *rise in governmental influence.*  The state, through regulation and other legislative means, can alter market conditions, investment values, and prospects for income generation. This redistributive effect is especially clear where transfer into public hands is followed by rapid resale.

## Towards a quick re-privatization?

Nationalization was accompanied by massive privatization worldwide. Global sales of USD 265 billion in 2009 exceeded the previous record value of 2000 by almost 50 percent.[[26]](#footnote-26) Accounting for most of this was the United States, re-privatizing fast the financial institutions taken into public hands not long before, with 4.5 percent profit on bank-rescue public investments. In Europe this process took longer and stayed smaller in scale. Up to 2014 income was under EUR 80 billion – only a fraction of former expenditures. However, not only nationalization but privatization went beyond the banking sector, accounting for almost two-thirds of privatization income in 2009-2014. The leaders, apart from Poland, were the countries that had to resort to international financial assistance. State assets, not only recently acquired, were sold off under strong pressure from creditors in Portugal, Greece and Ireland.

The tendency in Hungary is similar: privatization occurs against a background of nationalization. This income appear in annual budget plans: the amounts varied between HUF 130 and 180 billion in 2014-2016. Another HUF 300–400 billion is expected in forthcoming years from sales of agricultural land. The low scale (yearly income is under 0.5 percent of GDP) and timing suggest that neither a need for rapid improvement in financial equilibrium nor outside pressure is the main spur behind the privatization: by 2014 the budget deficit was consistently low and the last tranche of the IMF loan repaid, so Hungary got rid of the direct international influence on economic policy, as it was a strong governmental intention.

Here again, *two* *types* of privatization can be distinguished by their relations to nationalization transactions. One concerns assets originally in public hands: the remaining stake in Budapest Airport, mobile phone frequencies, air traffic rights, land and real estate assets were sold. The other type is re-privatization of recently nationalized firms – mainly banks in other countries. This has appeared in Hungary as well. Savings Bank, along with most of the savings cooperatives came under the FHB Bank control. It was not intended to keep the two big banks in public hands either.[[27]](#footnote-27) The reorganized Hungarian Foreign Trade Bank has already been sold to a domestic pension fund and two investment funds. There is no public information on the ultimate owners of the latter, and suspicions arose that they might include business clientele of the leading political party (*Böszörményi* 2016). Meanwhile Hungarian Aluminium and the tobacco retail trade are also privatized. In the latter case, newly created concessionary rights were sold competitively under rules that were amended several times to put the potential winners into an ever better position. According to the case study *Laki* (2015), it was a politically motivated redistribution of ownership and market, in which several firms close to the government received a business opportunity.

The strongest critics of the nationalization assume that these maneuvers in Hungary are driven primarily by political profit, one purpose being to replace the former business elite. Analysts see various methods being used: foreign and domestic entrepreneurs are squeezed out by regulatory or administrative methods. Movements of assets and markets within the private sector are assisted by extra-economic pressures, creation of new state monopolies, and restrictions on expansions and on state orders. The expansion of public ownership might be an integral part of this process. What occurs is a kind of “transitional nationalization”, whereby the assets are swiftly sold on. The official grounds for doing so are to boost small and medium-sized businesses and fortify the middle class, but in fact only a narrow group of governmental mafia families is being enriched and new capitalist groups formed (*Magyar* 2013, *Csillag,* 2013, *Várhegyi,* 2013). Such political partiality in redistributing wealth and income can be really shown in several fields, but of course, only assumptions can be made about its scale. It is also clear that the re-privatization in Hungary did not work to restore earlier owners to former positions, as it was typical for most American and some European banks, but enriched new entrepreneurial groups. However, this phenomenon has been confined so far to a few fields. There are no signs of quick re-privatization of major nationalized sectors as energy or public services, but there extended public ownership allows a selected few to earn a great deal as supplier or other trade partner of state enterprises.[[28]](#footnote-28)

## Similarities and specialities

A strange picture appears from the details: all features of Hungarian nationalization crop up in European trends after 2008, but each has specific characteristics as well.

The scale of Hungary’s public ownership before the crisis was below the EU average. Thereafter its expansion put the country in the vanguard of Europe*.* The process included many of the classic political, social and economic aims; it concerned similar sectors like banking, electricity, gas and oil industries, and public services. Furthermore, the increase and contraction of public assets have proceeded concurrently, as in several other countries. The difference is that the nationalization accelerated not as the crisis escalated, but some years later, in 2011. The central consideration was not to safeguard the financial markets or bail out banks and other enterprises, but to take over also many well-run businesses in a much wider sphere of activities. Nor was the privatization that followed or coincided with the nationalization unprecedented, but in Hungary it redistributed assets and profit earning chances, rather than restoring an earlier ownership structure. Here too, the main method was purchase, but the government often put direct pressure on sellers, alongside with still stronger indirect, regulatory and administrative constraints.

This is the *specific Hungarian characteristics* compared with post-2008 nationalization elsewhere in Europe: changes of ownership are integrated with a web of legislative and regulatory measures. The individual cases can be seen as parts of a comprehensive set of ideas about economic policy*.* It is obvious from the governmental aims: instead of short-term crisis management, although by using the pressures and opportunities offered by the crisis, nationalizations are intended to *change the shape of capitalism*. In fact this was *publicly declared and popular* with the majority of voters. These three features depart from recent international developments. Although Hungarian ownership changes probably lacked any prior scenarios, their conceptual background - extending the role of the state, centralizing decision-making and redistributing wealth - seems to be certain.

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1. Éva Voszka, University of Szeged, Institute of Finance and International Economic Relations [↑](#footnote-ref-1)
2. Paper was prepared under the common Polish-Hungarian Project „Development pattern of CEE countries after 2007-2009 crisis, on the example of Poland and Hungary” in the framework of an academic cooperation contract between the Polish Academy of Sciences and the Hungarian Academy of Sciences in 2014-2016. The Polish language version of this paper has been delivered to the editors of Studia Ekonomiczne for publication. [↑](#footnote-ref-2)
3. A version of the paper was published by *Külgazdaság*, 59 (11-12), 3-22. [↑](#footnote-ref-3)
4. For a summary see for example, *Toninelli* (2000), *Millward* (2011). [↑](#footnote-ref-4)
5. See for instance *Mihályi* (2014), (2015) and *Voszka* (2013). Certain sectors are analyzed by *Laki* (2015), *Király* (2016), and chapters of the books edited by *Magyar (*2013) and *Magyar–Vásárhelyi* (2014). [↑](#footnote-ref-5)
6. See *OECD* (2004) and *Christiansen* (2011). [↑](#footnote-ref-6)
7. The proportion of balance-sheet value of equity capital belonging to the state (*Voszka,* 2008), including firms whose assets are held by ministries or the state development bank, but not covering local-government assets, agricultural land or other real estate. The last three items and changes in rights of control (cessation of concessions or service contracts with private operators) are omitted from the asset-increase calculations for reasons of comparability, but they will be discussed in the description of the nationalization transactions. [↑](#footnote-ref-7)
8. <http://ec.europa.eu/competition/state_aid/scoreboard/financial_economic_crisis_aid_en.html>. These figures overstate the change of ownership, as not all capital injections imply nationalization. According to estimations (*Voszka 2016*), 67–90 percent of capital raised in the EU banking sector amounted to a move into public hands. [↑](#footnote-ref-8)
9. The prime minister used this phraseology first at the opening session of the National Assembly (14 May 2010). [↑](#footnote-ref-9)
10. Hungary as a subject of excess deficit procedure since 2004 had to present convergence programs each year and consult regularly with Brussels authorities. In October 2008 the country requested international assistance: the IMF, the EU, and the World Bank earmarked EUR 20 billion, accompanied by influence over economic policy. The government in the summer of 2013 managed to free itself of both forms of external control. [↑](#footnote-ref-10)
11. The specific measures are discussed in the next sections. [↑](#footnote-ref-11)
12. Interview with two senior National Bank executives October 2005. [↑](#footnote-ref-12)
13. The examples are covered in more detail in *Voszka* (2016). [↑](#footnote-ref-13)
14. The exception is Slovenia, as the figures for capitalization show. [↑](#footnote-ref-14)
15. Including the recapitalization of saving banks. [↑](#footnote-ref-15)
16. Not counting special state financial institutions, the Hungarian Development Bank *(Magyar Fejlesztési Bank)* and *Eximbank*, but including the whole National Savings Bank *(OTP)*, which accounts for 30 percent in itself (*Király* 2016). Although 60 percent of listed OTP’s equity is foreign held, the government and most analysts class it as domestic because of its Hungarian headquarters and the top management. [↑](#footnote-ref-16)
17. For the sectoral breakdown of the expenditure see *Mihályi* (2015). [↑](#footnote-ref-17)
18. The long-term effect of implicit state debt and an increase in current pension payments in this situation were ignored. [↑](#footnote-ref-18)
19. This complex story is analysed in detail in *Várhegyi* (2014), *Mihályi (*2015). [↑](#footnote-ref-19)
20. Since then, the oil company’s share price has fallen significantly, causing an (unrealized) loss of several hundred billion forints to the state. [↑](#footnote-ref-20)
21. *Mihályi* (2016) lists 13 types of special taxes. [↑](#footnote-ref-21)
22. On special taxes targeted at foreign investors, see in general *Soós* (2013), *Mihályi* (2016). [↑](#footnote-ref-22)
23. The extra revenues of HUF 1.8 trillion in the 2010–15 period would alone have covered all nationalization expenditures if the HUF 190 billion in stocks gained free of charge from the pension funds is deducted from the HUF 1.9 trillion total spending. The tax levied on the banks was double the expenditure on buying up financial institutions. [↑](#footnote-ref-23)
24. Quoted by *Várhegyi* (2012), p. 232. [↑](#footnote-ref-24)
25. This does not exclude that government sometimes paid high price compared to that depressed value, as a favour to the vendor. According to *Mihályi* (2015), this occurred in case of Mol, gas wholesale and the two big banks, because of foreign-policy reasons. [↑](#footnote-ref-25)
26. *Megginson* (2013). For other sources and detailed data in this section see *Voszka* (2016). [↑](#footnote-ref-26)
27. Under a 2015 deal with the EBRD over purchases of minority stakes in *Erste Bank*, the government undertook not to acquire further shares at systemically important banks, except in special cases of systemic risk, and to sell its majority banking shares within three years. <http://www.kormany.hu/download/f/8e/30000/Appendix%201%20EBRD.pdf>. [↑](#footnote-ref-27)
28. An example: the gas trading deal between Hungarian Power Plants and the partly offshore *MET Magyarország Energiakereskedő Zrt.* (MET Hungary Energy Trading). This seems to have earned its private owners several ten billion forints profit in 2012 (*Jenei* 2014). [↑](#footnote-ref-28)