

Hungarian Agricultural and Food Sector - Country Report 2009 – Mihály Vörös

In Hungary almost two decades have passed in the lingering economic and social transition period. The land has been privatised but Hungarian agriculture still lacks a stable farm structure (see the Table below).

Structure of land use and the average farm size in Hungary (2009)

Type of farms	Total cultivated land, thousand ha, %			Average size of farms, ha
			from which: owned land, thousand ha	
Private individual farms	3.294	49.7	1.576	9.4 ha per farmer
Cooperative farms	340	5.1	6	307.5 ha per farm
Company farms	2.716	40.9	204	302.5 ha per farm
Other	285	4.3	71	102 ha per farm
Total	6.635	100.0	---	----

Source: Ministry of Agriculture and Rural Development (MOARD)

The sizes and owners of the different farms keep changing. The applied farming technology is still not adapted to this new situation. One of the main problems of the transition is that farmers and consumers has dispensed with a coherent, long-term and effectual agricultural policy and an objective, neutral farm federation system.

The economic activity indicator of the country has significantly declined as compared to the period before the transition and it is extremely low in the international context as well. The number of jobs in rural areas decreased, unemployment is considerably higher in villages than in towns. Unemployment and inactivity are among the most serious problems of rural society and economy. The long-term consequences of this loss of jobs equally afflict the people living in villages and small towns, and indeed, in some areas even those living in medium sized towns.

During the long lasting transition the overall volume of agricultural production has been decreased, with a disadvantageous shift of the proportions between animal husbandry and plant production. Animal husbandry is in a negative process compared to plant production. During the post-accession period (in 2004 Hungary joined the EU) despite the overall income growth across the entire agricultural sector, the net investment performance as well as agriculture's sustaining and retaining capacity deteriorated.

One major weak point of Hungary's transitional agricultural policy was the overemphasis on export orientation while neglecting the domestic consumer and the diversified opportunities of promoting local food production and consumption. Large multinational retail chains were able to increase their shares rapidly in the domestic food market while a number of individual farms with low bargaining power were cut out from the market. Under deteriorating competitiveness of domestic food production and the lack of local food market infrastructure the share of imported food products has been rapidly increasing in food consumption.

Networks and direct channels for supplying locally produced safe, fresh and healthy food still has been rather limited. The legislation system and the bureaucratic procedures of public administration have also cramped farmer activities to widen local food activities. For the time being this had been weakening the ability of the Hungarian farm sector to sustain and retain the rural population and causing several other economic and social disadvantages (e.g. utilization of favourable natural resources, food quality and safety, healthy nutrition, environment protection etc.).

In 2009 the Hungarian agricultural and food sector had an unfavourable year. Crop production has decreased by around 14% and animal husbandry by 2%. Not only has production been decreased but the main problem is caused by agricultural prices have fallen by a larger extent. In the period of January-August average price reduction was around 20% (grain was over 35%) compared to 2008. The only exception was fattened pig, beef and egg prices which had a slight increase. The decrease of income in animal husbandry farms was less than in crop production farms. This came from increasing pig prices and highly subsidized dairy farms. In 2009 the total number of pigs reduced to below 3.2 million, which is one-third of the record stock Hungary had twenty five years ago. During the process of EU accession, dairy sector underwent reforms, which resulted in a steep fall in domestic dairy prices as well as bankruptcy of several producers, mainly small private herd owners. Many dairy farms have been trying to find alternative market channels to moderate income-reduction. In case of crop farms the price and yields of most products have reduced jointly. The only exception was maize and potatoes. As an effect the income and profit level of farm businesses might easily be reduced to one third or half of the previous year figure.

Because of the foreseeable income reduction and financing difficulties caused by the recent crises, farms seriously decreased production expenditures (e.g. energy, electricity, fuel, fertilizer, crop protection etc.). The financial crises had moderated the increase of land prices. Because of worsening profit potentials farm businesses (both private individual, cooperative and company farms) decreased the material input cost which has a direct effect on reduction of yield. In spite of the fact that prices of farm chemicals decreased, farmers reduced the amount of fertilizer at a larger extent.

As an effect of the country's EU supported National Rural Development Program (NRDP) agricultural investments had been increased. NRDP encouraged farm businesses to undertake investments but with the depressed supply of bank loans it resulted in farmers being forced to increase the use of their own capital - which also reduced the level of production input.

In order to sustain liquidity and the stress on using own capital sources to implement NRDP investment projects farmers had to sell products from their reserve stock at a lower price level. It reduced the value of inventory of output product. This has resulted in a serious decrease of the value of activated self-produced goods in farm accountancy. But the self-produced farm products that had been accumulated in previous years moderated the negative effect of financial crises on Hungarian agricultural sector.

The most distressing problem in Hungarian food sector is the state of the food industry. Production has been decreasing year by year. In 2009 the total value of production was 80% of the figure before the EU accession (2004). The loss of domestic market was around 30%. Concerning the food market inflation it was below 5%. Exports have been increasing but they are unable to balance the loss in the domestic market.

Hungarian Agricultural and Food Sector - Country Report for the first half of 2010 – Mihály Vörös

After a new parliament election a centre-right coalition government (FIDESZ-MPP - KDNP) has been established in Hungary in June 2010. By the end of this year an advanced long-term agricultural, food and rural development strategy might be elaborated which could hopefully substantiate a stable, effectual national agricultural policy for Hungary in the next decade.

Because of the extreme weather conditions all over the country the estimated average yields will surely decrease compared to the previous year and to expectations e.g. winter wheat 3.7 tons (expected 4.4) rye 2.2 tons (expected 2.7) winter barley 3.6 tons (expected 4.1), rape 2.1 tons (expected 2.4) per ha. There are also decreases in fruits and vegetable production. After the harvesting period the total wheat production can be estimated up to 3.5 million tons total, which is a decrease of 20% compared to 2009. Grain and flour prices are set to increase.

The total damage caused by floods, inland water and extreme weather in Hungarian agriculture might be up to 100 billion HUF. The size of land covered by inland water has been around 180-200 thousand ha and other 150 thousand ha has been damaged by surplus water. The totally perished crop might be 80-90 thousand ha (mainly winter wheat, sunflower, maize, pasture etc.)¹. The total land in which seeding could not be done exceeds 110 thousand ha. Wood damage in the forests can reach 10% of the total timber processed per year. This will surely have a negative effect on the income and profit level of farm businesses of all type.

The new government policy is focusing to create new jobs improving the ability of farming sector to sustain and retain the rural population. The most relevant policy measures which has already been discussed and will gradually be introduced in Hungary are the promotion of family farm producers, the land ownership consolidation and protection, the support of small local food producers by improving legislation and “supportive” public administration procedures as well as building up local marketing channels. A new government decree opened the way for local producer to sell their fresh product to local restaurants and kitchens in public institutions. Strict food safety measure and methods are to be introduced for straining off low quality import food, or foreign food products with detrimental components in the overwhelming multinational retail chains. .

¹ Reports of Hungarian Agricultural Chamber and the National Federation of Agricultural Producers and Co-operations published in Internet.