



# **PRIVATISATION IN HUNGARY - CHALLENGES, IMPACTS AND LESSONS**

**By Prof. Dr. Árpád Kovács**



# Objectives of the study

**To shed light on**

- **Role of State in Privatisation**
- **Forms, Methods and Process of Privatisations**
- **Economic and Social Impacts of Privatisations**
- **Experiences in Audit of Privatisations**
- **Various Forms of Privatisations in Transition Countries**



# Contents of the Study

- **Privatisation as a Part of Transition**
- **Economic Policy and Privatisation**
- **Legal Framework**
- **Forms, methods and process of Privatisation**



# Contents of the Study

(Cont.)

- **A Balance of Privatisation**
- **Impacts of Privatisation**
- **Tasks and experiences of the SAO**
- **A Comparative view of Hungarian Privatisation**



# **Privatisation- *reforms* versus transition**

**Role of privatisation in the reforms of market economy:**

- **to decrease the number of state owned public utilities**
- **to limit public funds to deliver collective goods**
- **to force competition in public sector**
- **to follow DPM paradigm**



# **Privatisation- *transition* versus reforms**

**Role of privatisation in the transition countries:**

- **stabilisation, restructuring**
- **modernization of whole economy**

**➔ To establish market economy, new regulations, new institutions, new behavior of economic actors, create new elite, new owners**



# **Economic Policy and Privatisation**

**General Requirement: to ensure favourable environment for privatisation**

- **to define the state entrepreneurial assets to be sold ( 1859 companies having book value of HUF 1700 billion in 1990)**
- **to define the objectives of privatisation**
- **to ensure a smooth balanced process of privatisation over time**



# **Economic Policy Objectives of Privatisation**

**Based on: Property Policy Principales and Privatisation Law (1995)**

- **establishment of market economy based on private property**
- **introduction of new, modern technologies and methods of management**
- **widening the circles of players in the domestic market**
- **development of capital market, the inclusion of foreign capital**
- **decreasing the economic role of the state**
- **maintaining and establishing jobs**



# The Cyclicity of Privatisation

Two forms, due to changing demands over time and election periods

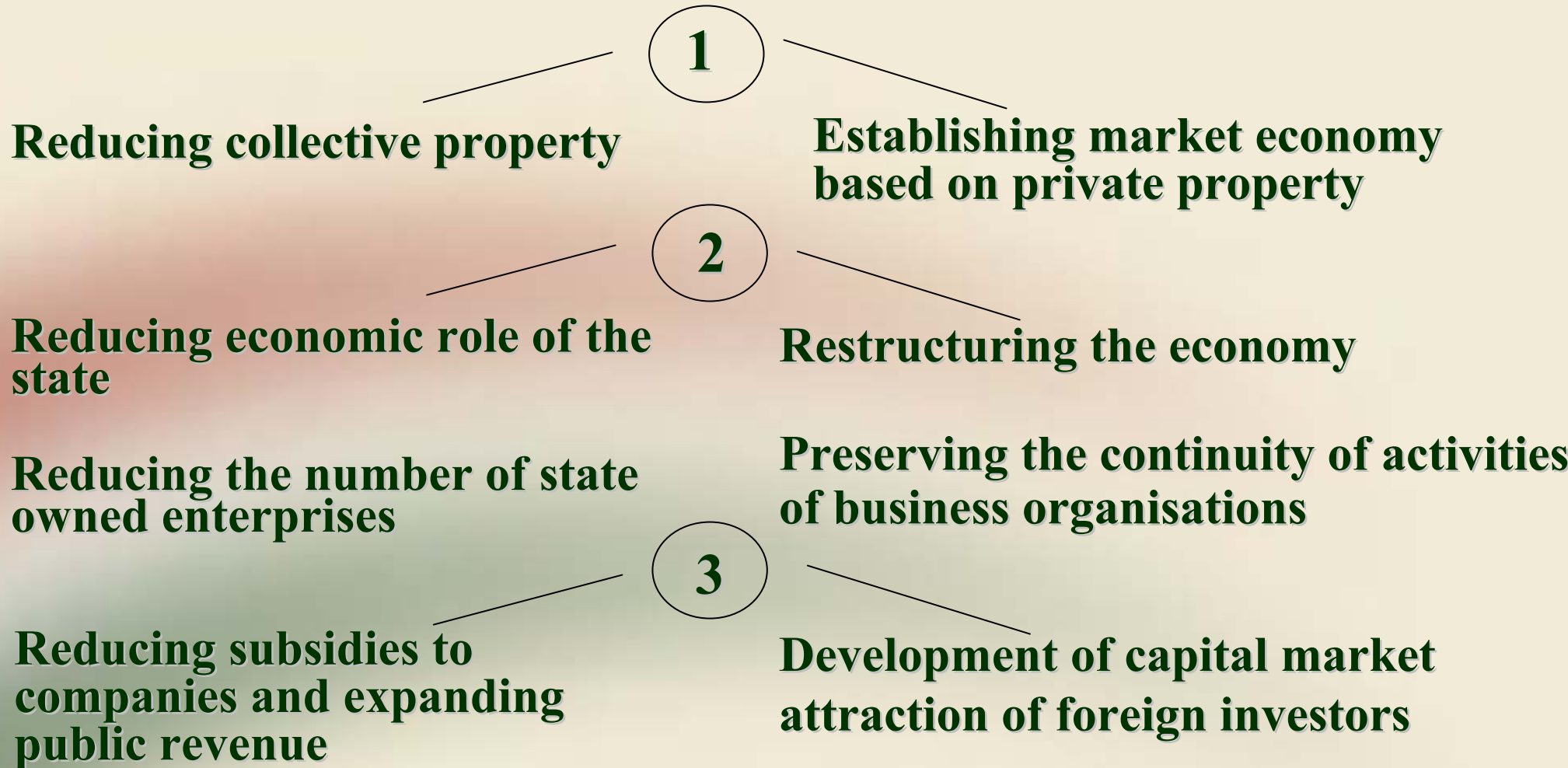
- Phases of privatisation over time

- „Spontaneous” privatisation(1989-1990)
  - Priv. under economic pressures(1991-1995)
  - Mature phase of priv.(from 1996)
  - Priv. of partnership type (from 2001)
- } **First Phase**
- } **Second Phase**
- } **Third Phase**

- Cyclicity of privatisation linked to election periods



# Economic Contents of Legal Instruments





# Legal Instruments

## Tasks

- 1. Reducing collective property**  
Establishing market economy  
Based on private property
- 2. Restructuring the economy**
- 3. Developing capital market**

## Main sources of law

- Constitution: Act XX, 1949**  
**Preprivatisation Act:**  
**Act LXXIV, 1990**  
**First privatisation package :**  
**Act LVIII, 1992**  
**Act LIV, 1992**  
**Privatisation Act:**  
**Act XXXIX, 1995**  
**Other Regulations:**  
**Stock Exchange: Act VI, 1990; Act XXXIX, 1994; Act CXI, 1996; Act CXX, 2001**  
**Central Bank: Act LX, 1991**  
**Act LVIII, 2001**



# Methods of Hungarian privatisation

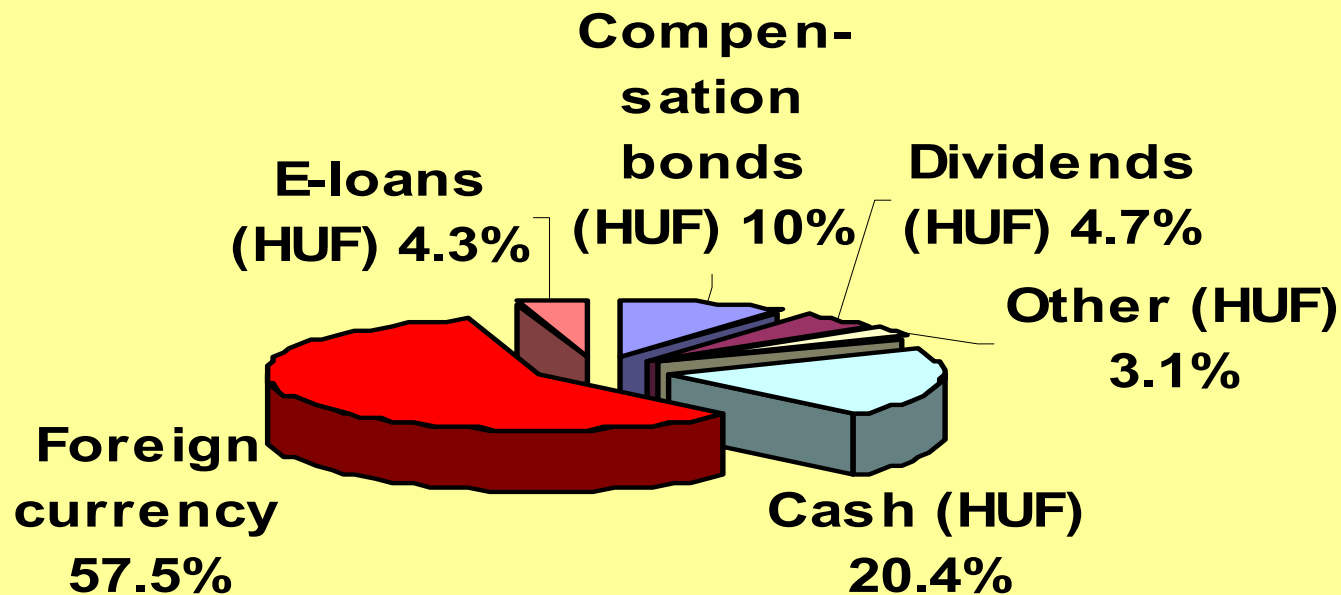
**Key questions were:**

- **Market focused v. voucher privatisation?**
- **Foreign v. Hungarian investors?**
- **To prefer the financial or professional investors?**



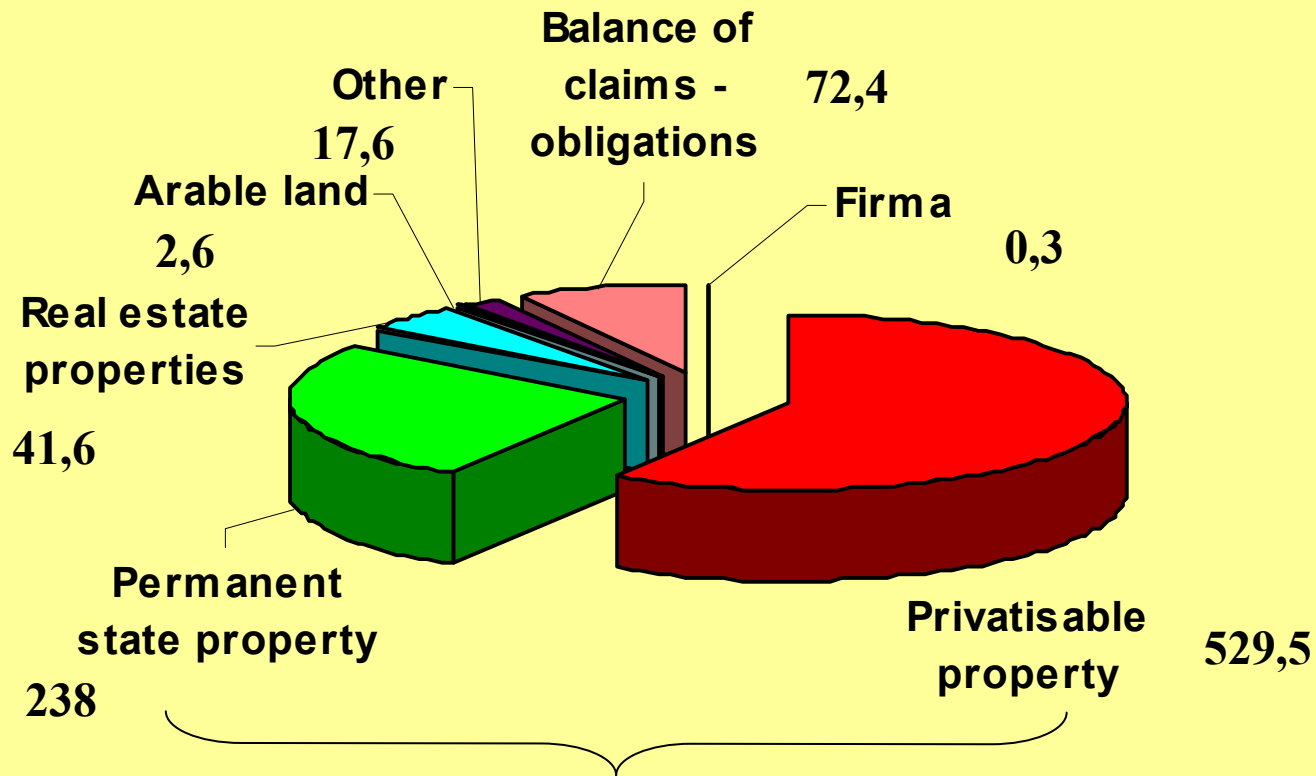
<b>Method or technique applied</b>	<b>Distribution according to the number of transactions (%)</b>	<b>Distribution according to the contractual value of transactions (%)</b>
<b>Tenders</b>	<b>52,6</b>	<b>38,7</b>
<b>Public auction</b>	<b>1,6</b>	<b>4,3</b>
<b>Capital market methods</b>	<b>5,0</b>	<b>41,1</b>
<b>Compensation bonds</b>	<b>3,0</b>	<b>10,9</b>
<b>Sales to employees</b>	<b>24,3</b>	<b>2,8</b>
<b>Management buy-outs</b>	<b>0,5</b>	<b>0,1</b>
<b>Simplifield privatisation</b>	<b>3,4</b>	<b>0,4</b>
<b>Other</b>	<b>9,6</b>	<b>1,7</b>
<i>All</i>	<i>100,0</i>	<i>100,0</i>

# The composition of the revenue of privatisations organisations (1990-2002)





# The composition of the attached property of State Assets Management Agency ( 1 January 2003, in billion HUF)



The property of 167 operating companies: HUF 767,5 billion



## A balance of privatization

Type of transactions concerning state assets	%
Privatisation revenue	27,4
Liquidation, full settlement, winding up	9,5
Transferred to the local government	1,6
Transferred to social sec. self-governments	0,3
Transferred to private assets management agencies	9,2
Transferred to other state assets management agencies	2,1
State owned companies	6,2
All registered transactions	56,3
Missing assests	43,7
All	100



## Structural change of the registered capital of companies by main types of owners (%)

	1992	1995	1998	2002
State owned	59	29	13	13
Privately owned	10	12	12	13
Company owned	13	20	26	26
Foreign owned	10	28	36	38
Others	8	11	12	9
All	100	100	100	100



## The ratio of exports in industries with high level of private and foreign ownerships

1992	1995	2001
10,4	27,9	43,2



## Changes in number of employment affected by privatisation contracts

<b>Year of privatisation contracts</b>	<b>1991</b>	<b>1992</b>	<b>1995</b>	<b>1998</b>
<b>Percentage of employment affected by contracts (%)</b>	<b>24</b>	<b>22</b>	<b>19</b>	<b>15</b>



# Roles of the State Audit Office

- **Auditing the activities of State Assets Management Agency and Companies**
  - **Presenting opinion on their internal controls**
  - **Presenting opinion on their assets registry system**
- **Auditing some larger state owned enterprises and their activities, maintenance and increase of the value of their assets**
- **Preparing personnel decisions (making proposals)**
  - **State Assets Management Agency: Executive Director, Members of Board of Directors**
  - **State Assets Management Companies: President of Supervisory Board, Independent Auditors**



# **Experiences of the State Audit Office**

- The SAO regularly informed the Parliament of its findings**
  - Yet, parliamentary control was weak, due to conflicting political debates**
  - Special Investigation Committees often benefitted from SAO's reports**
- The SAO, focusing on regularity audits, made some hundred proposals for privatisation**
  - Implementation lagged behind**
  - A few court procedures were initiated only**
  - In line with INTOSAI guidelines remarkable contribution to apply the best practices**