

## **The effects of global economic crisis in Hungary**

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### **Abstract**

In recent years it has become apparent that the global crisis affects not only the core economic zones, but it also put pressure on individual nation-states to rethink their economic policies. The recession has brought about great waves of transformation especially in the European Union. The case of Greece, Italy, Ireland and Spain shows that the future of the political and economic union and the euro zone may greatly depend on proper local management of the crisis. Smaller countries with open economy like Hungary face particularly difficult situation in Europe, therefore, they should elaborate tailored policies to cope with the consequences of global economic crisis. This paper first briefly outlines the causes of global economic crisis, then it focuses on the most important socio-economic outcomes in Hungary. The paper pays special attention to the changes having taken place in the national economy, the labour market and their effects on the situation of households.

**Keywords:** global crisis, economic environment, labour market, credit crisis in Hungary

### **Introduction**

According to the European Commission, the financial crisis which has hit the global economy since the summer of 2007 is without precedent in post-war history. From then onward the EU economy entered the steepest down-turn since the 1930s. Many experts investigated what in fact could lead to the global economic crisis. PARTNOY, F. (2003), AKERLOF, G. and SHILLER R. (2009) pointed out that speculation on the financial markets were the main reason for the crisis. BOOKSTABER, R. (2007) and AUTHERS, J. (2010), however, emphasised that problems caused by the crisis lie, on the one hand, both in institutional structures and lack of control, weaknesses of state institutions on the banking system and, on the other hand, in wide-spread misconception that such

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long-established, large institutions do not fall off the market. POSNER, V. (2010) concluded, that the previously unquestioned and seemingly immaculate institutions can also fail.

According to many economists (e.g. RAJAN, R. 2010) the crisis actually neutralises global economic counterbalances in economy and trade between the U.S. and China, the two important economic core areas. The intertwining of the two power centres shows that nearly a quarter of the U.S. government bonds are presently in the hands of China and it is the most important U.S. export market. Some economic experts expeditiously note that the U.S. economy has been financed by China for many years (KISS, J.L. 2009).

Other theories explain the background of the crisis on a cultural and national basis: German and French academics consider the crisis basically as an Anglo-Saxon problem, and they blame the stock exchange speculations taking place on the Wall Street and in the City of London for the crisis. (This attitude was less widespread in Chinese media, knowing the multiple mergers of the U.S. and Chinese economies). STUTTAFORD, A. (2010) also pointed out that the Greek national bankruptcy can also be traced back to the specific national mentality and consumption patterns as the global crisis to the US-American ones. According to BERNEK, Á. (2009) it is no coincidence that the global crisis broke out in the United States. This can primarily be explained by the economic weight of the United States e.g. two thirds of global R&D expenditures comes from the United States, it is the largest FDI exporter and importer, and 180 out of the world's 500 largest companies are located there respectively. The stock market in New York continues to place the world-leading capitalist stock exchange and the USD's role is widely known in international speculations.

No doubt, electronic (virtual) markets, the "paper economy" proliferation and a parallel strengthening of deregulation had all determining role in the global crisis. Control and restrictive role of state institutions weakened what led to speculative financial transactions and to the spread of "casino capitalism" (SIMAI, M. 2010). As a result, capital flow became more and more free, profitability and the financial transactions have grown faster than the production itself (for example, in many automobile works more revenue came from virtual financial transactions, than that from the production of cars) (HARVEY, D. 2011). Consequently, the world economy reached a stage of development where its development was not determined by the actual production processes, but by international cash flow processes (BERNEK, Á. 2009). The global crisis has also proved that the neo-liberal economic policy is not adequate, therefore, to take measures for overcoming the crisis the states should play more active role. Thus, in the long-run the return to the strict state-controlled economic policy is expected.

In this paper first I briefly review the chronology of the crisis and its impacts on European countries and cities. Then more detailed discussion will

be provided on the impacts of global economic crisis on the social and economic environments in Hungary. The paper is based mainly on the most important international and domestic literature. In the final section of the paper I present the results of an empirical survey conducted in several Hungarian cities regarding the consequences of the crisis among households.

### **The global economic crisis and its underpinning factors**

Due to the globalisation of world economy national economies, financial institutions and transnational (multinational) companies have become more and more interconnected, at the same time, they have increasingly liberated themselves from national and international control. Another problem was that rating firms were closely intertwined with lending companies (banks), which led to the confusing situation that rating agencies often rated their own decisions. Financial speculation and panic due to deterioration of the situation (i.e. the hysterical reaction) became also factors of the outbreak of the global fiscal crisis.

Before the crisis speculation affected first of all the “securitized” receivables of mortgage-backed real estate loans. Due to the boom of real estate market these bonds offered higher and higher yields. Globalisation circumvented the attention of globally interconnected financial institutions: the long-established giants spread the risks among them and considered themselves invulnerable. The high yields and low risk, along with the ever-weakening control fostered financial processes and investments. Due to the interconnections between business and capital, revenues from the emerging countries have been increasingly channelled into the world market as well, leading to the increasing amount of liquid capital in the global market.

The large amount of money brought about a reduction in bank interest rates and an increased propensity to invest, which basically came to the U.S. real estate market. Under such circumstances, of course, the banks were pleased to give loans, therefore, significantly increased the supply of consumer credit and lending, which boosted the demand on the housing market.

Result of this predatory lending was that households often spent half of their incomes for payment of instalments (SZANYI, M. 2009). The crisis started in 2007, when credit indicators on the U.S. real estate market began to creep up, accompanied by the fall of prices. The increasing interest rates more and more swept away the frontier of the solvency of households and over time they became massively insolvent. The subprime mortgage securities depreciated while more credit institutions went bankrupt or posted a big loss. Large credit institutions of the United States as Citigroup, Merrill Lynch, Goldman Sachs and Morgan Stanley have suffered billion losses by the end of 2007. Then a dramatic turn occurred: in 2008 real estate prices in the U.S. dropped by 20

percent and in some cities the fall rate rose up to 30 percent (AALBERS, M. 2008). Around 150 billion USD losses have been reported by key players of the U.S. financial sector, banks and brokerage houses by the spring of 2008. The collapse of Lehman Brothers in September 2008 extended (globalised) the crisis and transferred it on to the financial market. Thus, the global economic crisis started off the real estate and credit markets and then pulled the money market. The U.S. sub-prime real estate market crisis turned into a global financial crisis.

The global crisis reached the European Union during the second half of 2008. The underlying reason was that the U.S. mortgage refinancing was often carried by European credit institutions (i.e. “poisoned” securities, toxic assets often landed in their hands). In the last quarter of 2008 and first quarter of 2009 in all European countries very similar processes took place: due to the cumulative losses lending conditions became even more extremely strict, the availability of credit became inflexible, so that the financial crisis gradually passed through to other sectors of the economy. The crisis began to escalate into other sectors of the economy. EUROSTAT data show that the largest decline took place in durable goods industries (e.g. manufacturing, construction industry, automotive industry and electronic parts manufacturing, and consumer electronics). National currencies have been devalued compared to the dominant ones, the rate of unemployment began to rise. National governments were forced to pump money into the economy and the banking system to consolidate their positions (in many cases, taking loans from international organisations). This process practically still present, while the rescue packages introduced were more or less successful (see also BOROS, L. and PÁL, V. 2011).

The global economic crisis, however, also started to show the vulnerability of national economies and the underlying differences among countries. The real GDP growth in the European Union was –4.3 percent in 2009, however, substantial differences could be observed within Europe (*Figure 1*).

The European Commission identified three main categories of countries depending on the characteristics of local economy:

- The extent to which housing markets had been overvalued and construction industries oversized (e.g. the Baltic Countries, Ireland, the UK, Spain and France).

- The export dependency of the economy (e.g. Germany, Austria and the Netherlands).

- The size of the financial sector and/or its exposure to risky assets (e.g. the UK; Ireland and Luxembourg)

Due to the global crisis problems in the European Union’s structure and the functioning of the euro zone became also clear. Internationally renowned experts expressed their pessimism in the community’s future and the fate of the euro (see spring of 2012 when George Soros envisioned the disintegration both of the EU and the euro zone). Germany and France initiated their leading

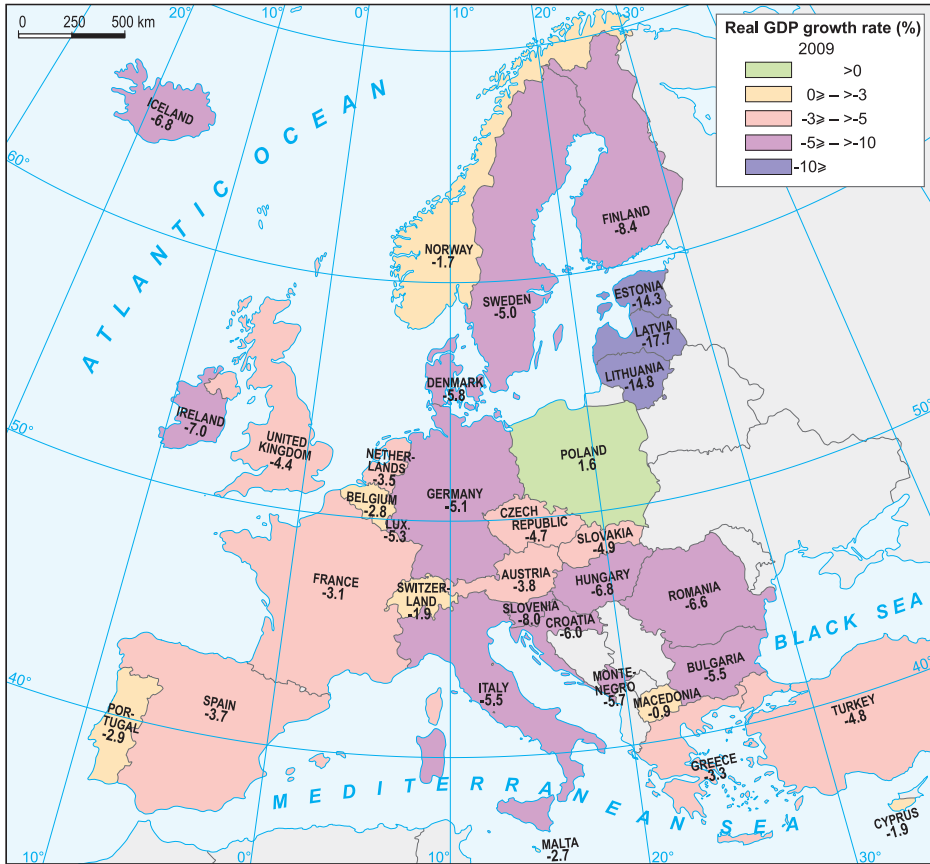


Fig. 1. Real GDP growth in European countries (2009, percent, compared to the previous year) Source: EUROSTAT, designed by AGÁRDI, N.

role in combating the crisis in Europe (not least because of their exposure and interests in countries being in crisis) and the political and economic positions of those countries being proactive in the crisis management have clearly been strengthened. However, as HARVEY, D. (2011) noted we must also see that in the long run the state cannot balance the problems generated by the capital, because the smooth functioning of the state depends just on the capital itself. The capital, however, never resolves its own crisis; only circulate around it.

Confirming HARVEY's ideas SOLOW, R.M. (2000) believes that the capitalist system is able to cope with smaller problems and deals with the crises related issue, but it is not able to solve global crises. One of the main questions of successful management of crisis will be if global crisis management measures can be coordinated, as global crisis requires global actions and regulations.

## Global economic crisis and its impacts on European cities

In 2009–2010 an international research project entitled “Cities and the economic crisis” was carried out focusing on the impacts of the economic crisis and the responses of cities (GUIDOUM, Y. and SOTO, P. 2010). The research was part of the URBACT II programme. Within the research programme a questionnaire was sent to 190 cities from 24 EU countries and Switzerland participating in the 28 URBACT projects of the First Call for proposals during the 4<sup>th</sup> quarter of 2009. Altogether 131 cities responded to the questionnaire survey. This chapter summarises the most relevant outcomes of the survey in the interpretation and explanation of the author.<sup>2</sup>

Local budgets decreased in 80 percent of the surveyed cities with the main reasons reported being lower tax revenues and lower state contributions. Cities where businesses were severely hit by the crisis and where budgets were highly dependent on local tax revenues were also likely to be more exposed to significant reductions in their budgets. In many cities in the new member states (e.g. Hungary), the change in exchange rates following the crisis have caused a considerable increase in the interest rates of loans taken in foreign currency. As a result, municipalities had difficulties with increasing costs and difficulties repaying their loans and accessing new bank credits.

Major projects supported by private funding have seen the private partners withdrawing for different reasons: their inability to access credits from the banks and the reluctance to take risks and the fall in demand as in the case of housing projects. As a consequence, important infrastructure projects have been downsized, delayed or simply halted. A direct consequence of the decline in budget revenues was the inability of cities to provide the required co-financing for projects supported by the European Union Structural Funds. This was the case particularly in the New Member States where the flow of such funds is especially important.

The largest group of cities (one out of three) referred to individual measures to combat the crisis. These varied from the application of national recovery plans to fire fighting actions to cut expenditure to more innovative tools. Over 10 percent of the cities referred to the adaptation of existing strategic development plans to respond to the long term effects of the crisis. Finally just 30 percent of the cities said that they had not yet developed a response or provided no information (GUIDOUM, Y. and SOTO, P. 2010).

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<sup>2</sup> The survey itself has two main parts, firstly, the nature of the impact of the crisis on different kinds of cities and secondly, the nature of their response. The aim of the first part of the survey is to give an overview of the ways in which the crisis is affecting the extremely diverse cities of Europe today. The second part of the survey provides an early picture of the types of response to the crisis that are being explored by European cities.

The global economic crisis has also had serious impacts on the social conditions and cohesion of cities through the labour market. As a consequence of the economic recession, unemployment rates increased in 80 percent of the cities responding to the URBACT's survey, both in the public and private sectors. Between March 2008 and March 2009, unemployment in the European Union rose by 5.4 million people to 21.5 million (8.9 percent). The largest increases took place in the Baltic States where unemployment tripled to around 15 percent in May 2009 and in Spain where it was doubled to 18.7 percent.

While cities generally reported the construction sector as being the most affected by the crisis in terms of business closures and bankruptcies, it is in the industrial/manufacturing sector where most job losses were recorded. In the European Union youth unemployment increased more than twice as fast as unemployment as a whole between 2008 and 2009 (3.7 percent compared to 1.6 percent), leading to a youth unemployment rate of 18.4 percent. Young people were clearly identified as the group most severely affected by the crisis. In some cities, high levels of youth unemployment was said to be leading to a "brain drain" of qualified young people to other EU countries, the United States and Canada.

According to EUROSTAT the crisis has affected men more than women, and between 2008 and 2009 the male unemployment rate increased more than the female rate in almost all Member States. Migrants have also suffered disproportionately from the crisis. Since the start of the crisis, the unemployment rate of non-EU workers grew faster than for other workers and reached 18.9 percent in the third quarter of 2009, as against 13.6 percent one year before. According to EUROSTAT low skilled jobs have been declining much faster than medium skilled or highly qualified jobs during the recession.

### **The effects of global economic crisis in Hungary**

East Central European countries followed different pathways in the 2000s with regards the usage of foreign currency loans. In the Baltic States, fixed exchange rates favoured foreign currency lending, in Hungary and Romania indebtedness of residents occurred mainly in foreign currencies as well. In Romania the situation is better as the savings of the residents are predominantly in euro and the loans are also mainly in EUR and not in CHF. Similar situation could be observed in Croatia, where 74 percent of bank loans are in foreign currency, of which four-fifth is in EUR. Due to the high proportion of guest workers in the West and the country's role in international tourism this type of indebtedness does not create major problems. In the Czech Republic and Slovakia foreign currency debt was not significant, and the foreign currency loan portfolio of Poland and Bulgaria remained at a low level as well.

Before 2000, 25 percent mortgage charges were recorded in Hungary. It is no coincidence that in 1999 only less than 20 thousand new homes were built in the country. This unfavourable situation was changed by the new housing program of the FIDESZ government in 2000, and according to CSO data the amount of subsidised housing loans increased in the following two years to nearly 500 billion HUF. In the following years, the number of newly built homes reached an annual level of 40 thousand, however, after this peak it decreased again in 2006 and 2007. This can partly be explained by the fact, that in 2003 a correction of the subsidised housing program was introduced, which actually meant a gradual reduction of state subsidies. Foreign currency based lending started to run up when the non-subsidised forint loans' mortgage interest charges reached an unaffordable level.

In the first half of the 2000s due to the state interest subsidy system introduced earlier, to the improved real wages, and to the loans taken at the beginning in HUF and later in foreign currency a huge demand on the housing market occurred resulting dramatically increasing prices on the real estate market between 2002 and 2008. The soaring housing prices have not dampened the demand, and more and more residents indebted. However, at this time already in foreign currency because of the more favourable interest charges and the tightening conditions of public interest subsidy system. In 2007, the amount of subsidised HUF housing loans was 1,530 billion HUF (375 thousand housing loans); while the rising amount of foreign currency loans by 1,459 billion HUF (272 thousand foreign currency loans) were close to this volume. By the end of 2008 the ratio of foreign currency loans jumped to 60 percent within the total housing loan portfolio, although it was only about 1 percent at the turn of the millennium.

The crisis broke the Hungarian Forint's (mostly artificially) retained power and stability. In the last quarter of 2008 and the first quarter of 2009, the Hungarian currency has been depreciated by 15 percent compared to the CHF, and by 17 percent compared to the EUR. Due to the increased instalments this depreciation has led in many households to insolvency and to an emerging credit crunch. At the end of 2009, the amount of housing loans in Hungary was 3,920 billion HUF (i.e. 15 percent of the GDP), of which 63 percent was the ratio of foreign currency based housing loans (KAPITÁNY, Zs. 2011). 2009 brought significant changes in housing loans. First, the banks have continued to reduce the lending of foreign currency mortgage loans, on the other hand, the residents became more cautious, which halted the growth of foreign currency loan portfolio in 2009.

However, 2009 also brought changes in the sense that the ratio of late loans has dramatically increased. According to estimations of the Hungarian Financial Supervisory Authority there were altogether 1,225,419 residential mortgage-backed treaties in mid-2011 registered, and a quarter of these had



already some delay in issue, and more than one tenth had a delay beyond 90 days. The number of foreign currency loans was 262 thousand out of 301,700 loans with delay, 123 thousand out of 142,300 with a delay beyond 90 days. It is important to distinguish between foreign currency denominated housing loans and home equity freeware loans, since the construction of the two loan types significantly differ from each other, so the ratio of non-payers also differ in the two portfolios.

The average HUF repayments costs of foreign currency loans increased by 21 percent between 2007 and 2011, partly because of the previous practice that banks have not used reference-based interest rates (i.e. the amount of interest to be paid was not linked to interbank interest rates). While financial institutions in the neighbouring countries using reference interest rates already reduced their interest burden, interest rates remained unreasonably high in Hungary. High interest rates have further heightened the negative effects of exchange rate fluctuations. At the end of 2011 financial institutions still offered CHF-based loans with an extra rate of 3.2 percent in Hungary, which was much higher than the bank's funding costs and country risk would have been justified. In Hungary, banks applied extraordinary high interest rates during the crisis and they further compounded the situation of households for extra profits. The above mentioned fact points out the low level of financial culture of residents, the predatory profit hunger of Hungarian credit institutions and the delayed and inadequate state regulations. Typically, before and during the crisis policy makers, the central bank and the banking institutions could be characterized by inaction, almost nothing happened except that the central bank's stability reports consistently warned of the risks of foreign currency lending.

In order to mitigate the negative effects of foreign currency exposure, in September 2011 the Hungarian government passed a law on final repayment of foreign currency loans in a lump sum. Altogether 170 thousand households with foreign currency loan used this possibility to repay or to exchange into a HUF-based loan. The amount repaid was equal of 1,354 billion forint which made up 24.1 percent of the total portfolio of foreign currency loans. Since only 984.2 billion HUF out of the above amount was paid by the households, the banking system in Hungary had to bear a loss of more than 370 billion HUF. It is no coincidence that international and domestic financial institutions and economists heavily criticised these measurements. Since the neediest strata were unable to use the offered possibility of final repayment, in April 2012 new measures were taken by the government – now in agreement with the banking sector –, to help the needy households (fixed exchange rate of repayment for 5 years duration).

Difficulties of the Hungarian economy arose not only from the global economic crisis, because already few years earlier major problems were experi-

enced in the economy. In recent years, it became clear that the main economic problem in Hungary is the increasing level of overspending. It was not as obvious during the first half of the 2000s as the country's economy performed relatively well: average economic growth was 4.2 percent between 2001 and 2006, which was mostly guaranteed by the industrial production growth rate of 6.4 percent (STARK, A. 2011). The rate of increase, however, was broken in 2007 and the negative trend continued also in 2008, thus, economic development in Hungary lagged behind the neighbouring countries. The crisis found Hungary in a very depressed economic situation.

According to BÉKESI, L. (2011) the main problems of the Hungarian economy are the low economic performance of the country, its low competitiveness in international comparison, scarce resources, the small size of the domestic market, the unfavourable demographic trends, and the quantitative and structural problems of labour force. This is combined with disproportionately high state responsibilities, liabilities and expenses, high-level corruption and huge accumulated debt.

The structural problems with the negative effects of the crisis caused a GDP decline of 6.7 percent between 2008 and 2009, of which 2.9 percent could be linked with the industry. The number of corporate and individual enterprises significantly dropped, the volume of foreign direct investments in the Hungarian economy fell from 4.5 billion HUF per year nearly to its third. The volume of investments has been reduced in many industries (e.g. in mining by 46 percent, manufacturing 15 percent). The industrial and manufacturing investments especially decreased in the counties of Western Transdanubia and in Borsod-Abaúj-Zemplén and Heves counties in Northern Hungary region. In the same period, industrial production fell by 18 percent: it was especially significant in the manufacturing of metals and fabricated metal products (40 percent) and, also in the automotive industry (30 percent). Examining the economic sectors we can conclude that between the first quarter of 2008 and 2010 the production in manufacturing fell most dramatically (16.8 percent). Compared to its share within the GDP there was also a significant decline in construction industries. The sharp drop of new car sales from 177,000 to 45,100 between 2007 and 2011 illustrates the combined impacts of the narrowing domestic market and the effect of increasing interest rates of car loans. Actually, the above decline in car sales almost destroyed the new car dealer network in Hungary.

The effects of crisis on construction industry and real estate market became also obvious. Due to the unfolding credit crisis housing prices significantly declined which brought about the freezing of the property market and a deepening crisis of construction industry respectively. In 2006 nearly 200,000 flats were sold, while in 2010 it barely exceeded 80,000. The number of dwellings built nationwide was only 20,800 in 2010, and, in 2011 it fell further by 40 percent compared to 2010. In 2011, construction output was lower

by 7.8 percent compared to a year earlier, and in the first quarter of 2012 the negative trend was not stopped.

We can conclude that especially the export-oriented sectors have been more exposed to and hit hard by the global economic crisis (Kiss, É. 2011).

There is no coincidence that in Hungary the Central and Western Transdanubian counties suffered the largest production decline in the past few years (see also ENYEDI, GY. 2009; TINER, T. 2010). Hungary's situation during the economic crisis has significantly worsened; therefore, the country can be classified as one of the bigger losers. The main reason behind is the openness of the country's economy. The ratio of companies participating in international production systems is 40 percent, the contribution of these companies to the export reaches 75 percent. Approximately 45 percent of the assets of Hungarian companies are controlled by foreign investors. About 25,000 foreign enterprises are registered in Hungary. They provide nearly two thirds of the GDP, and their share in export and import goes up to 80 percent of the GDP (BERNEK, Á. 2009; SIMAI, M. 2010).

International comparisons show that Hungary is one of the countries where the crisis was accompanied by a modest increase of unemployment. LŐCSEI, H. (2011) gives an excellent summary on the temporal and spatial spread of unemployment during the crisis. According to her outcomes the period between the autumn of 2008 and the summer of 2010 can be divided into four phases:

- From October 2008 to January 2009, a moderate rise in unemployment figures was detected. In this phase the proportion of unemployed and job seekers at the centres of industrial production in the counties of North Western Transdanubia increased significantly. Due to the reduced production in the larger companies of manufacturing centres major layoffs have occurred in Komárom-Esztergom, Fejér, Győr-Moson-Sopron and Vas counties. In this period there were no significant differences between the unemployment figures of individual settlement categories. However, changes in the unemployment rates were strikingly high in the most disadvantaged areas, where unemployment definitely increased.

- Between January and May 2009, the unemployment rate increased rapidly, and in May it was nearly 33 percent (140 thousand persons) higher than one year before. In this period in all regions of the country the number of job seekers increased and rising unemployment was no longer limited to the export-oriented core areas of Transdanubia. Higher redundancies took place in the traditional industrial centres (e.g. Dunaújváros, Százhalombatta, Kazincbarcika, Miskolc). In general, the negative labour market consequences were transferred from the larger cities to the smaller settlements.

- In the period from June 2009 to February 2010 the proportion of job seekers in the population aged between 15 and 64 continued to increase from 8.6 per-

cent to 9.3 percent, but the intensity has not reached previous extremities. Labour market effects of the crisis, however, reached Central Hungary region (the region of Budapest), where due to the predominance of the service sector the negative effects of the crisis were somewhat delayed. Differences between the settlement categories with respect to the number of job seekers constantly disappeared: the spatial effects of the crisis have become more even. The unemployment rate peaked at 11.9 percent in the first quarter of 2010 (BÁLINT, M. *et al.* 2011).

– Since March of 2010 a downward trend could be detected in the number of registered job seekers. The positive trend could be explained, on the one hand, by seasonal reasons and by the public employment programs introduced, and, on the other hand, by the emerging consolidation of manufacturing enterprises in the North and West Transdanubian regions. However, favourable changes in the agglomeration of Budapest could not be recognised yet. During this period, the employment in small communities of disadvantaged areas (e.g. villages in Cserehát, Szatmár and Ormánság regions) improved somewhat faster (LŐCSEI, H. 2011).

About the sectoral effects of the crisis we can conclude that the largest decline in employment occurred in the industry (11 percent), and more precisely within the construction industry. Between the first quarter of 2008 and 2010 the number of employees in this sub-sector decreased by 14.9 percent (BÁLINT, M. *et al.* 2011). In addition, a large number of losses in manufacturing took place, also in real estate enterprises, and private companies involved in education (KÖLLŐ, J. 2011). The reduction in the labour reached first engineering industry, automotive industry, but most intensely hit electronics industry (Kiss, É. 2011). The biggest redundancies (collective, organized, massive lay-offs) took place in foreign-owned automotive and electronics companies performed in Budapest, Esztergom, Tatabánya, Szombathely, Székesfehérvár, Veszprém and Kecskemét. It is estimated that approximately 25 thousand people lost their jobs in the automotive industry in Hungary due to the crisis. In other sectors of the economy layoffs speeded up in the spring of 2009.

### **The effects of the economic crisis in Hungarian cities**

To supplement international and domestic experiences we carried out questionnaire surveys in Budapest, Szeged and Győr during the summer of 2010. The questionnaire contained altogether 39 questions. The household survey was supplemented with street questionnaires containing 10 short questions. The household questionnaire has also been published in digitised form on the internet and I expanded the research with an internet survey in the second half of 2011. The empirical results introduced in this chapter are based on the assessment of the information collected in these surveys. Although results of the surveys are not representative, they give a good insight into the subjective

interpretation of the crisis, how people living in the major Hungarian cities see and appreciate the effects of the global economic crisis in their daily lives.

Almost 60 percent of the respondents defined the start of the economic crisis in 2008. Just over a third of the respondents put this to the second half of 2008, which was the period of the outbreak of the crisis in the European Union. In recent years many analysis have been published about the crisis, in this respect the above rate is not considered to be high. However, respondents could clearly identify the United States, where the crisis originated from: nine-tenths of the respondents named this country as the cause of the crisis. The respondents can be divided roughly two-thirds to one-third according to the responses if the Great Depression began in the banking (64.5 percent), or in the real estate sector (27.6 percent). The distribution of answers could also be influenced by the problems of banking sector that had a decisive effect on the people in Hungary.

It is also worth taking a look at our empirical results revealing which branches of the Hungarian economy suffered the greatest losses in the crisis. Two-thirds of the respondents stated, that the construction industry was the biggest loser of the crisis, while one fifth of the respondents identified the automotive industry and automobile trade.

According to our survey urban residents perceive that the crisis in the cities caused the biggest problems on the labour market (e.g. shrinking employment opportunities, increasing unemployment). In addition, respondents also mentioned the real estate market as the focus of problems, the negative changes occurred in the economic environment (e.g. business bankruptcy), and financial shortages and funding problems in governments and businesses. The lack of development and investments in cities is closely related to the latter. Generally a positive picture can be drawn among the residents with regards future development of cities in Hungary. While only a quarter of the respondents expect the downturn, a further quarter thinks the current situation will be stabilised. However, nearly half of the respondents expect positive changes (*Figure 2*). Responses make it clear that on higher levels of the settlement hierarchy people see more optimistic the possibility of recovery from the crisis.

No clear picture could be drawn among city residents about the real effects of crisis on the labour market, namely how many people actually lost their jobs as a result of the crisis. Answers to the question scattered widely: some said that the global crisis had hardly any effects on employment, while others estimated the number of redundancies to be around half a million. The largest proportion (27 percent) within the sample is represented by those interviewees who estimated that 100,000 to 150,000 people lost their jobs due to the crisis, which approximately corresponds to the actual data (*Figure 3*). Nearly half of the respondents experienced labour market effects also personally, as their acquaintances (32 percent), relatives or friends (16 percent) lost their jobs.

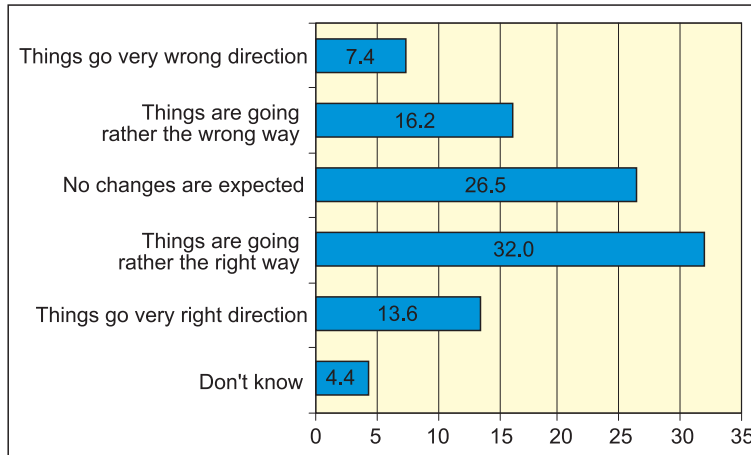


Fig. 2. Evaluation of future urban development trends by urban residents (2011, n = 545).  
Source: author's survey

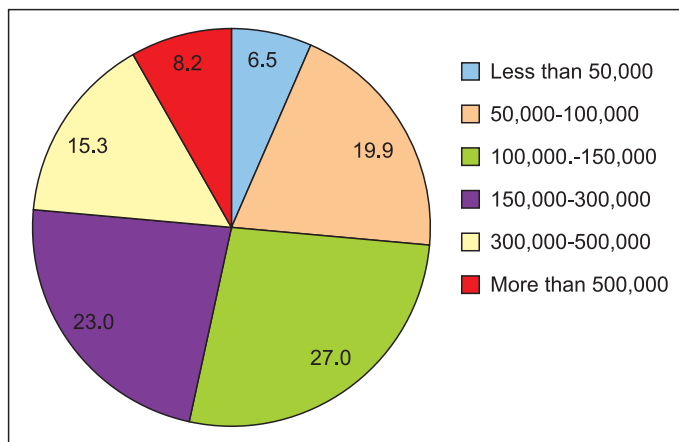


Fig. 3. Estimations on job losses due to the global crisis by urban residents (2011, n = 353).  
Source: author's survey

The crisis had impacts not only on the labour market, but also significantly affected the financial conditions of households, income and savings relations as well. The impacts of the economic crisis on households can be summarised, that the social composition by income and financial situation became polarised, i.e. on the one hand, more and more people slipped down on the income ladder to the lowest deciles, on the other hand, the gap between

the richest and poorest widened. The financial crisis had clearly sharpened the differences between the households. The decrease of income and the level of indebtedness had a determining role in the financial situation of the households (TÓTH, I. and MEDGYESI, M. 2011).

These outcomes were also confirmed by household surveys of TÁRKI Social Research Institute made in 2009. On the one hand, on the basis of subjective perceptions the proportion of those households combating with financial problems or even are deprived rose (from 19 percent to 22 percent and from 4 percent to 8 percent respectively) compared to the results of 2007. On the other hand – especially among poorer households – a significant increase in the proportion of indebted families has been registered since the crisis started.

The gradually increasing indebtedness of poorer households is indicated by the fact that 14 percent of households in the lowest income quintile paid bank credit instalments in 2001, however, this figure climbed to over 40 percent in 2009. In the same group, the ratio of households paying housing loans rose from 7 to 24 percent over the same period, and the proportion of those with trade loans increased from 7 to 17 percent. The indebtedness of the highest income quintile of households was not so dynamic. At the beginning of 2010, in the lowest income quintile 43 percent of the total incomes were spent on debt repayment, while in the highest quintile it was only 15 percent (TÓTH, I. and MEDGYESI, M. 2011).

Empirical results show that the quality of life of urban residents decreased after the outbreak of the crisis. Nearly half of those surveyed claimed that their quality of life deteriorated somewhat in recent years, nearly one-fifth of the respondents stated that their quality of life decreased significantly since the crisis started (*Figure 4*).

The deterioration of quality of life in many cases can be explained by the worsening financial conditions of households: no coincidence that more than a quarter of respondents is worried about their future income (“won’t be able to feed the family”), a further fifth of respondents is worried about job or livelihood. Respondents spend almost two-fifths of the household’s net monthly income on overheads; the ratio of food within the monthly budget is close to 30 percent. Expenditures spending on clothing (12 percent), entertainment and culture (15 percent) are significantly lower.

In recent years, more and more news note in Hungary that saving ability and willingness for that of the population is low: respondents – if they have a chance for that – set aside less than a fifth of their monthly income. Households primarily try to defend themselves against the crisis by reducing their direct expenditures (e.g. fewer but smarter shopping, cutting expenditures for clothing). A usual method for savings is to reduce overheads (cutting water, gas, electricity consumption), and to cancel services (e.g. internet, telephone and cultural programs).

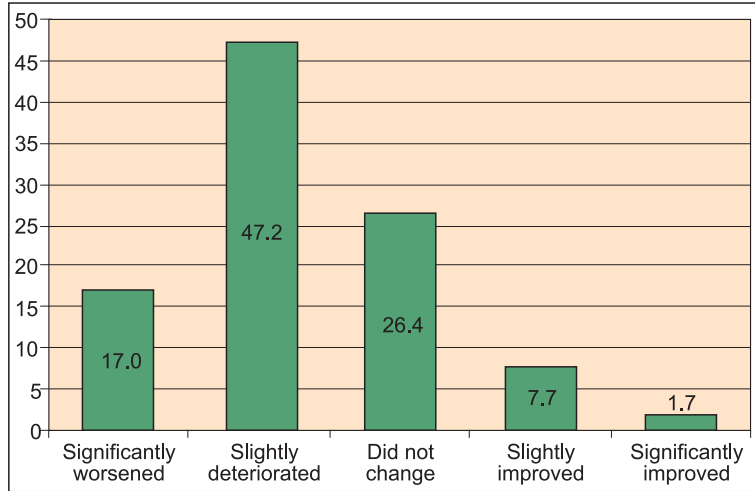


Fig. 4. Perceptions of residents about the quality of life since the break-out of global crisis (2011, n = 353). Source: author's survey

## Conclusions

More and more people say that it is actually not only the world economy, but also the whole socio-economic development path so far is in crisis that affects the whole of human society, culture, lifestyle, outlook and morals (SZENTES, T. 2009). According to the most relevant ideas of QUINN, D. written in his book *Ishmael* (1992) I would clarify this that the so-called "Western culture", the "white man's culture" is in crisis, if we really interpret the current global crisis as a failure of the socio-economic development path. In fact, the market is now driven by selfish individualism ruling everything, not just the economy but also culture, sports, science and everyday life. The biggest problem in this respect is defined by LÁSZLÓ, E. (2008) very well: "The global economic growth continues, but fewer and fewer people see benefits."

Several theories are circulating in professional circles about the causes and backgrounds of the crisis. The current crisis began in the United States and swept around the world. Considering the functioning of the economy (short-, medium- and long-term cycles), in the magic triangle of *speculation–virtuality–interlacement* it was only a matter of time, when and where a crisis of a similar size broke out. Due to the economic crisis to be expected that a certain degree of rearrangement occurs in the global economic space (see Asia's and especially China's growing role in the global economy). The European



Union has to rethink both the state's role and responsibilities in the regulation of financial markets, and the role of nation-states in the community's future development.

The crisis has affected the cities in many ways and at very different scale. International experience shows that considering the negative effects of the crisis it is not the city size, but rather the composition of the local economy that plays a major role. Cities with export-oriented, deeply embedded economic sectors in international market and trade have been more hit by the crisis. According to the European Commission cities should implement a smart, sustainable and inclusive growth to avoid future negative trends in their local economy. „Smart growth“ means the development of economy based on knowledge and innovation, „sustainable growth“ promotes more resource-efficient, greener and more competitive economy. „Inclusive growth“ would foster a high-employment economy delivering economic and territorial cohesion.

East Central European countries have followed different pathways in their political, economic and social transformations (COTELLA, G. 2006). Even before the global economic crisis the differentiation of Central European countries was marked and it has only been further accelerated by the crisis. Hungary, as an apt pupil during the years of transition has lost its leading role in the region. According to Kiss (2009), the country today is characterised by a kind of double marginalisation: firstly, the country's position weakened not only in the EU but also in East Central Europe; on the other hand, Budapest's role is thinned in the region as well. Therefore, the membership in the European Union for Hungary – although often criticised in political phrases –, also represents an essential form of protection.

Due to the irresponsible decisions of the political elite in Hungary the economic crisis reached a weakened state. Therefore, it is not surprising that many experts view that Hungary is one of the biggest losers of the crisis in Europe. The crisis damaged the country's export-oriented sectors, growth industries; it occurred earliest and had often the biggest negative impacts in the formerly prosperous regions (e.g. Central Transdanubia). The economic problems were coupled with problems of the financial market: far-reaching credit crisis reared its head in Hungary, which has deepened the social crisis. According to present understanding the state, the credit institutions and the public are all to be blamed. For many years there has been no effective state (political) means of credit market regulation, credit institutions applied much higher interest rate indicators to damp their profit hunger and the population – due to the low-quality financial culture – irresponsibly took mortgage-based housing and trade loans.

The governmental measures started in 2011 in order to mitigate the negative impacts of the crisis have sharply been criticised at home and abroad.

At the moment no clear positive effects of these measures can be detected yet, but because of the short time scale it is too early to draw the bottom line. Anyway, a more cautious opinion can be noticed that the recent actions have not strengthened Hungary's position within the European Union. It is still an open question to estimate the results on the future development of the so-called unorthodox economic policy presently followed by Hungary.

**Acknowledgement:** The article and empirical survey presented above have been supported by the Bolyai János Scholarship of the Hungarian Academy of Sciences.

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# Hungary in Maps

Edited by  
Károly Kocsis and Ferenc SCHWEITZER

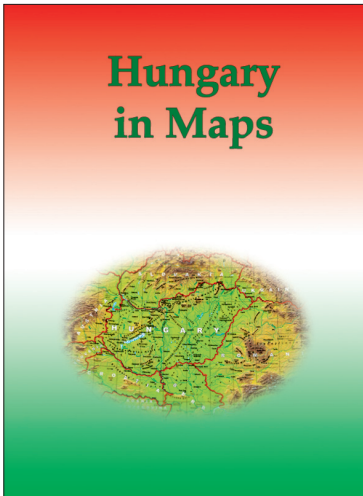
*Geographical Research Institute Hungarian Academy of Sciences  
Budapest, 2009. 212 p.*

'Hungary in Maps' is the latest volume in a series of atlases published by the Geographical Research Institute of the Hungarian Academy of Sciences. A unique publication, it combines the best features of the books and atlases that have been published in Hungary during the last decades. This work provides a clear, masterly and comprehensive overview of present-day Hungary by a distinguished team of contributors, presenting the results of research in the fields of geography, demography, economics, history, geophysics, geology, hydrology, meteorology, pedology and other earth sciences. The 172 lavish, full-colour maps and diagrams, along with 52 tables are complemented by clear, authoritative explanatory notes, revealing a fresh perspective on the anatomy of modern day Hungary. Although the emphasis is largely placed on contemporary Hungary, important sections are devoted to the historical development of the natural and human environment as well.

In its concentration and focus, this atlas was intended to act as Hungary's 'business card', as the country's résumé, to serve as an information resource for the sophisticated general reader and to inform the international scientific community about the foremost challenges facing Hungary today, both in a European context and on a global scale. Examples of such intriguing topics are: stability and change in the ethnic and state territory, natural hazards, earthquakes, urgent flood control and water management tasks, land degradation, the state of nature conservation, international environmental conflicts, the general population decline, ageing, the increase in unemployment, the Roma population at home and the situation of Hungarian minorities abroad, new trends in urban development, controversial economic and social consequences as a result of the transition to a market economy, pri-

vatization, the massive influx of foreign direct investment, perspectives on the exploitation of mineral resources, problems in the energy supply and electricity generation, increasing spatial concentration focused on Budapest in the field of services (e.g. in banking, retail, transport and telecommunications networks), and finally the shaping of an internationally competitive tourism industry, thus making Hungary more attractive to visit.

This project serves as a preliminary study for the new, 3rd edition of the National Atlas of Hungary, that is to be co-ordinated by the Geographical Research Institute of the Hungarian Academy of Sciences.



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