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ON SOME MACROECONOMIC EFFECTS OF FDI IN HUNGARY

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Abstract

The author tries to analyse some macroeconomic effects of the Foreign Direct Investment (FDI). Usually the quick capital inflow immediately effect on balance of payment. It can improve the balance, reduce its deficit without the change in the balance of trade. In Hungary the estimated share of the equipment and other assets in FDI is 20%. It may cause deficit in the balance of trade through the import-increasing effects. The author examines also the sectoral target and enterprise's structure of the Foreign Direct Investment.

Keywords: foreign direct investment, greenfield investment, balance of payment, trade balance, liberalization, profit repatrialization.

Introduction

Foreign Direct Investment is a tool for modernization of our economy. Rather important for us to overcome the backwardness of our economy in general and of industry in particular. Rather difficult to examine the real macroeconomic effects of FDI without microeconomic-enterprises-level analysation. We know that the FDI immediately effect to macro economy (on balance of trade and payment, on the sectoral, and enterprises structure) and depending on the nature of FDI, the effects on technical, or technological improvement of industry will appear later. For example, if the ownership had changes it will bring better results with improved marketing and advertising. The technological change will follow only after the further investment. In the present analysis, we examine only some macroeconomic changes. The statistical data sometimes is not satisfactory to differ from the capital flow and stock ownership. Figures from resource of the Hungarian National Bank are flow-type data. Data on the ownership comes from enterprises-accounting. In Hungary statistical data of Joint Ventures appear together with 100% foreign owned enterprises (it is referred to as enterprise with foreign interest).

1. Foreign Investment in Central-Eastern-Europe

According to the Deutsche Bank Research data[1] capital export directed to Central- and Eastern Europe reached 15 billion dollars by 1993, though this may seem marginal in comparison with the 375 billion directed to developing countries, or the total sum of 2000 billion. It is less than 1% of the latter. The low proportion is also the consequence of a very dynamic growth, which the region reached in less than four years, following the change over to market economy. The influx of capital export into the region was mainly motivated by the following:

1. The most important is the growth accessible by market extension:
   - purchasing the potential market,
   - to invest in an area in order to open markets otherwise protected by trade restriction.
2. Greater profits arising from low expenses:
   - low labour costs,
   - investments through the privatization program are of great value due to the number of opportunities available and because of the low profits of the recession period,
   - ease of meeting environmental requirements in the region,
   - significant tax and custom preferences,
   - very low prices of real estate.
3. New service market opportunities and need for new service enterprises such as marketing, banking financial consulting and accounting.
4. The currency speculation.
5. Other factors, as e. g. emotional motivations connected with emigration.(Those who have emigrated are investing in their home land).

From the foreign investment flowing in the region Hungary has a share of 50%, which is a remarkable result. This share is mirrored in the number of Joint Ventures. Hungary had more than 17,000 joint ventures in 1993. FDI per person is also the highest in Hungary $ 500–600. These data show that Hungary initially attracted a much higher investment than the neighbouring countries:

- Hungary had started positioning itself early by moving towards the market economy in the reform of 1968. The foundation was laid for Joint Ventures early as 1972.
- Regulations guarantee foreign investments, profit repatriating, and providing tax and customs preferences were the first in the region.
- Hungary started developing a federal banking system earlier than other countries.

[1]Deutsche Bank Research No.: 94. 30. November. 1993. Focus: Eastern Europe

Table 1
Joint Ventures and net foreign direct investment number, million USD

Country	Number of Joint Ventures				Foreign Direct Investment			
	1990	1991	1992	1993	1990	1991	1992	1993
Bulgaria	140	900	1080		4	56	16	
Czech.	1600	4000	4800		188	592	443	
Hungary	5693	11,000	13,079	17,529*	311	1459	641	2200*
Poland	2799	4796	7648		88	117	36	
Romania	1501	8022	13,432		18	37	41	
Total	11,733	28,718	40,039		573	930	1177	
Share of Hungary	48.5	38.3	32.7		54.3	64.5	54.5	
Share of Czech.	13.6	13.9	12.0		32.8	26.7	37.6	

Source: Economic Bulletin for Europe 1992.
* 1993. Hungarian data from Hungarian National Bank,
Hungarian National Bank, monthly report 1994/2

- Due to the openness of our economy, a more significant lively and wider system of relations was built up through the foreign trade (export per person in 1990–91 in Hungary was 610 and 893 million dollars, while in Czechoslovakia 383–660, in Poland 285 – 345[2]).
- The central geographical location, and experience gained in trading with the Soviet markets, were advantageous experience, however, currently it is difficult to enter the Soviet market directly.
- Our political stability has played important role in Western willingness to invest in Hungary.

It is felt that the more favourable position of the Hungarian economy originates from the initially making many appropriate changes. Unless appropriate changes continue to progress the advantage may be temporal. It is apparent that there is strong competition between the countries of the region for obtaining the foreign investments. In accordance with the elimination of problems of particular countries this competition is increasing.

The Hungarian advantage is not only explicit in the amount of the influx of FDI. It is also important to mention that the proportion of greenfield investments is highest in Hungary, and the strategical, technical economical effect of this is also incomparable with other forms of FDI (e. g. buying ownership).

The sectoral distribution of FDI is the most advantageous in our country compared to the share of the capital flowing in engineering industry and

[2]Hungarian National Bank review

the spheres securing quick recovering of expenses. The multinational capital flow is also the highest. (Four multinational firms competing with each other joined in the car industry)

The future rate of inflow of FDI to Hungary will greatly depend on the competitive position of countries in region.

2. FDI Inflow in Hungary

2.1 The Increase of FDI

For the estimation of FDI inflow the figures entering in foreign exchange through the Hungarian National Bank are applicable. The published data of total direct investment differs from the bank's data. The volume of the contributed equipment and other assets is not included in the bank figure. Both lists of data show the dynamic increase of FDI (cf. *Table 2*).

Table 2

FDI through the Hungarian National Bank 1988–1993 end of the year, million $

1988	1989	1990	1991	1992	1993
23	215	569	2107	3424	4376 (Nov.) 5624**
Direct foreign investment*	550	900	1700	1641	651 (1. half of the year)

Source: MNB Havi Jelentés 1994/2
(Hungarian National Bank, monthly report)
Figyelő: 1993. 12. August.
* per year in million USD
** previous data

Increase is especially large between 1990–91, 1.5 billion dollars. However, there was decreasing tendency from the beginning of 1991 to November 1993. In the last month of 1993 there was a significant change. This included the selling of MATAV (Hungarian Telephone Company) and the annual FDI inflow rose beyond the 1.5 billion annual increase. FDI to Hungary appears higher than in the other country in the region, but lower than the expectation manifested of Programs of the government. In this program they planned 50% share of private ownership and 25–30% of foreign ownership. According to statistics the proportion of private ownership is around 40–50%, but the share of foreign ownership is only about 8–12%. (based on available statistics, which may have omissions).

20–30% of FDI inflow was connected with privatization. FDI accounted 78% of investments in privatization in 1991, 57% in 1992, and about 32% in 1993. The total FDI increased, but the relative proportion in privatization decreased.

Quick privatization generated FDI in Eastern Europe. In Hungary FDI directed towards privatization showed a great increase in the beginning, and a decrease later. This way of obtaining investments is limited. Foreign investment slowed greatly through the privatization of state ownership, due to the fact, a large portion of the firms with broader perspective and greater market are now sold. Examining the financial position of firms indicated a high proportion of almost bankrupt firms. Under such circumstances the government' reorganising programs also require the contribution of the FDI. The likelihood of the realization of this is as yet unknown.

50% of total FDI is greenfield investment. The proportion calculated from the data of the 50 biggest FDI is 28%. (The most significant are: Volkswagen-Audi, Westel, GM, Suzuki, Ford, Tetra Pak).

The remaining 20–30% is the proportion of the portfolio and the small financial investments from the total capital inflow.

2.2 The Main Investors of Capital

When examining the FDI flowing into Hungary, it is interesting that the US capital investment is the greatest in Hungary of all Central and Eastern Europe. This seems to contradict the general experience that the greatest investors spring from the greatest trade partners. The American proportion of FDI is 33%, the German 14% and the Austrian capital investment is 10%. The order is entirely different if we examine the capital appearing in the privatization. Austria is the highest with 36%, UK. the second, the German proportion the third with 11%[3].

In the distribution of the 50 biggest foreign investments the American 1799 million dollar-investment is the first, (this does not include the German-American General Motors multinational firm nor any American capital joint investments). The order of individual investors are: Germany and Austria. (MATAV is not included in the survey).

[3] Privatization and foreign capital. Working Paper of the Conference: Hungarian Privatization, Budapest. 16. July, 1993.

Table 3
The 50 biggest investments in Hungary by the origin of capital

USA	1799	30.1
Multinationals	1097	18.0
Germany	1179	19.7
Austria	359	6.1
France	334	5.6
Italy	330	5.5
Japan	250	4.3
UK	160	2.7
Switzerland	94	1.6
Others	381	6.4
Total	5.983	100.0

Source: Compiled from Figyelő, 27. January, 1994. p. 22.
(my own counting)
(The portfolio investments are included)

3. The Macroeconomic Effects of the FDI

There was a great deal of optimism from some, in regard to the macroeconomic effect of the FDI. The expectation of rapid modernization. On the other side, the sceptics were concerned with displacement of workers and exploitation of Hungary and its workforce.

One needs to remember, the macro effects of the FDI are not separately independent from the whole economy, e. g. its advantageous effects may be neutralised by other factors such as a bad monetary policy.

3.1 Effects on the Balance of Payment

Usually the FDI improves the balance of payment of the country, i. e. it reduces its deficit without the immediate change in the balance of trade.

The deficit of the Hungarian balance of payment in convertible foreign exchange exceeded 1 billion dollars per year, which the surplus in rubel reduced to 350 million dollars. (In 1989 the total debt was 71.3% of GDP, and 239.8% of the annual exports). *Table 4* discloses the effects of the balance of payment of FDI flowing in through the bank.

Our data concerning the share of the contributed equipment and other assets in the FDI is not verifiable. The Joint Venture Association estimates, it is approximately 20%.

The 1.5 billion dollar surplus of the balance of payment in 1990 was not the result of FDI. In 1991 the FDI effect on the balance of payment has multiplied by 5. This year FDI increased immensely. According price

Table 4
Effect of the balance of payments of the FDI

	1990 (I–XII)	1991 (I–XII)	1992 (I–XII)	1993 (I–XI)	1993*** (I–XII)
FDI inflow in foreign currency	311	1459	1471	1099	2200
Net outflow after the FDI	–24	–32	–45	–54	
Short-term effects of improving the balance of payment	287	1427	1426	1045	appr. 2000**
Equipment and other assets of FDI*		92.3	between 120–200	no data	no data

* Data from the Ministry of International Business. The estimates of equipment and other assets only from 1991 is available.
** Estimated data
*** previous data
Source: Judith Hamar (references) Data in 1992 and 1993 from MNB Hungarian National Bank, monthly reports

level adjusted data, it increased by more than $ 100 billion compared to the previous year. The $ 100 billion surplus of the balance of payment was the result of the increase of income from tourism and one-sided transfers. The surplus of balance of trade was a small amount. There has been a decisive change in the formulation of the foreign trade balance. This will be discussed when dealing with the effects of the foreign trade balance. In 1992 the effects of the balance of payment show a similar magnitude to that of the year 1991. This year 20% of the total funds and reserve for borrowing came from the FDI.

1993 produced a deficit in foreign trade which was greater than anticipated. During the first 11 months of 1993 a deficit of 2986 million appeared contrasting the surplus of the previous periods, a $ 1051 million deficit was incurred. Although the FDI of $ 1099 million in the same period was significant. It was only enough for offsetting 36.8% of the deficit. The financial problems were solved by net borrowing and bond issue. In the last month of year a surprising change happened. In part the FDI inflow increased due to the privatization of the MATAV, and reached $ 2.2 billion for the year. It offset the deficit of the current balance of payment of FDI in a greater extent than expected. (The actual foreign trade deficit also decreased). In 1993 the net effect was the balance of payment improved. It was not due to the inflowing capital that the current balance of payment closed with significant deficit. The borrowing and the FDI made it possible to increase our foreign exchange reserves in spite of the trade deficit.

The foreign exchange reserves increased by four times between 1990 and 1991. The slow start of 1991–1992, it changed rapidly by 1993. According to data of 1993 November, the reserves in gold and foreign exchange reached $ 6116 million, which covers 7 months of imports. This may even be considered as excess. International experience of countries as Hungary indicate 5–6 months reserves for import is desired. All this is worth examining, because the FDI inflow will not neutralise the long term debt of the economy, but does increase exchange reserves and makes it possible for us to improve the term of our debt. In the make up of our present debt the proportion of the short term credits of 20.7% in 1986 has decreased to 8.3% in November 1993. This would have been impossible to attain without the influx of FDI.

FDI inflow created a strong financial source initially for investments of Hungary abroad, although it is currently weaker. (Today $ 226 million per year).

The repatriation of profit needs to be examined. It has a bearing on the effects of balance of payment. The exported profit may create the illusion that the capital exporter is not taking profits out of the country. Compared to the yearly FDI inflow of 1.5 billion we can consider the annual $ 54 million repatriated profit marginal. However, the examination of investments and capital increase does not really testify that significant proportion of the produced profit enters reinvestment. It is our opinion that the accounting profit is understated. Foreign owners repatriate profit in many other ways. Many firms show deficit, the profit is realised in the form of expense, through international transfers. Firms in the free trade zone disposing of foreign exchange, multinationals transfer profits through accounting means to countries with more favourable tax advantages. (It is even more striking that on the basis of the under accounted export, part of the income remains abroad, or it makes its own firm to pay the over accounted import.)

3.2 Effect on Trade Balance

The inflow of FDI is often offset trade balance due to the acquisition of foreign purchased assets and equipment. According to experience the exports increasing effect of capital import may be counted upon only after a few years. Initial favourable trade agreements have a negative effect, since the liberalization of the trade immediately entails the increase of imports.

The extent of the negative effect of the trade balance and negative effect on balance of payments depends on the capacity for adaptation of the real sphere of the economy. This explains the reason why the countries, which made economical opening succesfully, Spain, Portugal, etc. promoted the capital inflow after some years of trade-liberalization. With this, they prolonged the effect of FDI to the balance of trade, (FDI can compensate the deficit of the trade balance) until the lower developing enterprises can improve their technology necessary for the world-wide competition. The liberalization of the trade and the promotion of FDI in Hungary happened at the same time.

The expected effect of the balance of foreign trade took shape only in 1992. The balance of trade was positive active until 1992. In 1989 it was $ 537 million, in 1990 $ 348 million, in 1991 $ 189 million, in 1992 $ –482 million, and in 1993 was more than $ –2 billion deficit.

The figures of the foreign trade clearly show that the significant increase in imports was between 1990–1991.(imports were increased 300 billion forints, the export only with 150 billion forints). The deficit of the trade balance was caused by the termination of the increase of exports.

The import volume had changed because of the quick trade liberalization and the overvaluation of the forint. It is natural that the dynamic inflow of FDI also results in import-increase. First of all part of the investment contributed to the equipment and other assets. In Hungary it is included in import statistics. On the other hand, the foreign owners of enterprises increased the import materials and machines used in the period of production. In other cases the new foreign owners had stopped producing and used the market existing for imports produced in the owner's country. For example this happened in the paper industry. Large amount of FDI went in the trade sector with very little capital investment. It was indirect import rather than capital investment. The trade balance of the country did not initially became a deficit because of the sudden export increase. The export was the only way for the enterprises to survive. The market of Comecon terminated with the dissolution of Soviet Union. The possibility of an inner market changes every week. Only the market of western countries had given possibility. The composition of export turned unfavourable. The share of raw material, component material and production with contracted labour increased in the export, and at the same time the manufactured productions decreased. Simultaneously the profitability of the exports had decreased. The experts anticipated the decrease of export, but not as quick as that of 1993. The recession in Germany contributed greatly to the fall of our export. (The export to Germany is greatly a large part of the Hungarian export.) At the same time many companies and enterprises became insolvent and some went bankrupt.

Ministry of Finance statistics show that there financially troubled companies provided 32.1% of the total export (in 1991).

It is necessary to state that the trade activity of the Joint Ventures is largest (export and import together). The examination of the Joint Ventures proved that the deficit of balance was the result of Joint Ventures. Earlier we discussed the import activity. The export activity is motivated by the overvaluation of the forint. The expectation of the forint devaluation is a good reason for postponing the export revenue. It is rather difficult to be sure that the decrease of export is also caused by the profit repatriation, through the under-priced export. It has been the international business experience that the market-developed effect of the FDI will ensue some years later, and the effect on the trade balance will be more favourable in the future.

3.3 Structural Effects of the FDI

3.3.1 The FDI and the Structure of the Economy

The initial increase of enterprises with foreign interest (Joint ventures and 100% foreign ownership) was when the risks and capital-needs were the lowest. For example those involved in the trade sector. The disadvantage of this investment is not improving the technics and the technology. After the initial purchase they did not invest more, often called 'robbery-capital'. This kind of investment is undependent of any sector of economy. Usually it involves domestic commerce.

Table 5 shows the sectoral division of foreign capital.

Table 5

Sectoral division of the number and capital of enterprises with foreign interest

	1989		1990		1991		1992*		1993*	
	ent. No.	cap. MFt	ent. No.	cap. MFt	ent. No.	cap. MFt	ent. No.	cap. MFt	ent. No.	cap. MFt
Industry	35.7	48.7	26.8	50.1	23.8	57.0	16.4	62.4	5.7	29.76
Commerce	33.1	33.4	41.1	17.9	46.0	16.4	51.7	10.8	52.7	14.00
Material service	13.8	13.9	12.0	22.4	11.8	17.2				

Source: Hamar ref. 1. (1989–1991)

92–93 statistics: KSH. Havi Közlemények 1993/12

(Central Statistical O. Monthly Report)

* From 1992 the sectoral statistical method had changed, in that case the statistics of material service are not available.

In Hungary like other areas, a big quantity of enterprises were founded in the sector of trade. If we examine the division of capital we can see that most of the capital went to the manufacturing industry. (However, in 1993 the share of manufacturing industry became lower.) The effect of the FDI to the total economy depends on the field of investments. It is clear that in the modernization of the entire Hungarian economy could help the FDI in manufacturing or services, but investments in the commercial sector usually do not effect directly. (If the shops and marketing improve, this could help tourism and consumption, but not the productive sections.) Further examination is not so suitable.

The new foundation of companies by sectoral division show that besides the favourable situation of manufacturing, companies preferred the investment to the fields of catering industry, real estate and financial services (in field of insurance for example, the share of foreign investment is 95% already).

Table 6
Sectoral target of Foreign Direct Investment in the Hungarian Industry. Million dollar 1990–1993 (I–VI)

Sectors	1990	1991	1992	1993*
Mining	3.2	9.6	2.4	1.1
Electricity	—	0.1	15.5	0.0
Metallurgy	31.6	31.6	25.8	5.1
Engineering industry	235.8	579.4	46.4	23.4
Building material	102.8	170.5	8.0	9.3
Chemicals	98.1	181.6	43.7	9.3
Light industry	155.1	208.0	16.6	10.0
Other manufacturing	6.3	9.0	1.4	1.0
Food processing	96.5	458.2	54.9	13.1
Total	729.4	1641.5	236.2	72.8

* I. half of the year
Source: Ádám Török : p. 44 (References 2.)

It may have positive externalia on modernization but of course its effects are rather indirect. For Hungary the most beneficial are the investments in the manufacturing sector. The share of FDI in manufacturing can be seen very attractive (*Table 6*).

The biggest investment went to the engineering manufacturing, the food processing and the building-material manufacturing. The hard manufacturing, mining and metallurgy attract only few investments. The investments in the light manufacturing decreased. It is rather interesting case of the car manufacturing. The total investment is 753 million dollars by four multinational companies. These investments were greenfield investments.

The amount of these investments is not high, but its effect is very promising. It is necessary to state that the motivation of the FDI in the car manufacturing was to enter the Hungarian car market, three investors do not plan to export in the western market (export improvement is not expected). However, Suzuki hopes to export in the other countries and to enter the protectionist market of the European Union through Hungary. For Hungary the effect of the modernization is important. The contacts between economic sectors are developing. Hungarian companies will co-operate in manufacturing. (Their European manufacturing needs to be increased to 60% if they want to enter the market of the European Union. Today it is 10 – 15%).

3.3.2 Concentration of FDI and the Enterprise's Dimension

Most of the enterprises with foreign interest are small-scale factories, (their share is 35.4%).The share of the biggest (more than 50,000 thousand forints registered capital) is only 12.5%. The examination of the division by capital shows a more clear-cut picture. The share of the big-scale factories is 92.1%. Profitability of the enterprises does not depend on size. The small-scale investments — in our practice — are not really investments. For that reason it is important to know how much investment is directed into the small sector. The same table discloses the total share of foreign investments in the total capital of enterprises.

The amount of foreign investment in a single enterprise is continuously decreasing. That tendency is unfavourable. It is a sign of decreasing investments. In the meantime the percentage of foreign investments in the existing equity is increasing.

This means that the capital is rather dispersed, and at the same time the foreigners try to buy the dominant share of companies. (They prefer 100% ownership.)

In our practice most of the investors after the initial investments try to increase their share. For example the share of GE initially was 85%, and after one year it had acquired 100% ownership in Tungsram.

The explanation is obvious if we think about the nature of capital investment. If the capital market is rather developed, it is possible to attract the investors like portfolio investors. Unfortunately inn Hungary today the capital market has not been developed. The portfolio investment is rather rare.

Table 7
Division of the number and capital of enterprises with foreign interest. December 1992

Capital	Foreign direct investment		Division of enterprises with foreign interest	
1000 Ft	1	2	3	4
0 – 1000	0.6	5.8	7.4	35.4
1001 – 5000	2.1	13.7	9.3	29.8
5000 – 10,000	0.8	10.0	17.4	9.9
10,000 – 50,000	4.4	10.1	14.3	12.4
50,000 –	92.1	7.9	12.6	12.5
Total	100.0	8.0	9.6	100.0

1. Division of all foreign capital
2. Share of all foreign capital in the enterprises's all capital
3. Share of the number of enterprises with foreign interest in the number of all enterpris
4 Division of the number of all enterprises with foreign interest
Source: KSH Statisztikai Hírek 1993. 08. 19
(Statistical Review 19. 08. 1993).

It is natural that the interest of the foreign investor is not necessarily the same as the interest of the Hungarian economy as in the field of employment. We cannot expect steps automatically towards our interests, and that is true not only in companies with dominated foreign ownership, but also in case of the share of FDI over 30%. The investor has much more practice in the field of marketing and business than the Hungarian counter partner. So the investors sometimes lobby for their self-interest. An interesting example is the car manufacturing. The Suzuki and GM-Opel attained the allowed quota of the personal car import decreased from 200,000 to 140,000 per year, and the used-car import was further decreased after 1992. (The situation is the same in Czech Republic, where the Volkswagen-Skoda attained that the custom-duty on import car increased, and the tax on home produced car increased.

3.4 The Effect of FDI on Supply

In Hungary it was hoped that the quick inflow of FDI would halt the recession. The real effect of FDI depends on purpose of it. If its function is the same as a new credit its effect can be very positive, (it was mentioned before: the effect of the balance of payment) that was not anticipated. If the FDI means only that the owner of enterprises has changed, (the investor buys a factory producing more or less satisfactory), then the multiplier effect on development is lower. If the new owner starts new production he improves supply, develops GDP. It is natural, that the simple change of ownership can bring a lot of advantages. That is the intent of the privatization program. Private ownership is more sensitive to the change of market, and works more efficiently due to better marketing and market-conform methods. Macroeconomical effects depend on the size of investments of the new owner longer perspective maximalization of profit, and better competitiveness and how big this investment would be. FDI would generate active capital in that case.

We have indicated that the real GDP in Hungary did not increase, but stopped decreasing. In a few areas where the share of FDI is large the measurable production increased (refrigerators, lamps, beverage manufacturing, etc.).

It is very important to emphasise that with the help of FDI the quality of Hungarian production has improved. Some products have now reached the world standard.

In the sphere of engineering manufacturing new technology and new production appeared. Every field where FDI determined big changes occurred in the marketing, the efficiency of input, advertisement, generally in management, in financial work, etc.

All that can be the first step towards better development and modernization.

Today the effects are a little controversial. The FDI and the liberalization have supplanted many Hungarian products in the market, because of their low competitiveness. A great number of factories ceased producing, declining into a critical financial situation, or some into bankruptcy.

Capital investments by the foreign owners is very controversial. Usually activity of enterprises with foreign interest is directed at self interest rather than Hungarian interest. But that is not so difficult. The recession is continuing and expected to continue. More business activity will be initiated when the expectations of profit become greater. It depends on the world-wide conjuncture especially in Europe, and also Hungarian economic policy.

Summary

The macroeconomic effects of FDI in Hungary are difficult to analyse without a microeconomic approach. We tried to show the positive and negative effects of FDI. It is felt that FDI contributes to the market economy. First, the critical indebtedness of the country eased with the help of FDI. The sectoral and enterprise-level survey shows that a rather large share of FDI

contributed to our taking bigger steps towards modernization and developing the standard of our production.

It is certain that the interests of the investors are not necessarily the same as that of the Hungarians. In many cases the effect of FDI depends not only on the investor's interests, but also on the economical atmosphere. It is impossible to expect the investor to finance our reorganization program against his interests in profit. Still, the investor is willing to participate in such programs under satisfactory conditions and with promising perspectives. It can be and should be a win-win situation, if properly structured and administered, benefiting all.

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