MARKET STATEMENT 2004-2005
HUNGARY

REPORT OF THE

HUNGARIAN REPUBLIC

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FOREST PRODUCTS MARKET STATEMENT OF THE REPUBLIC OF HUNGARY

Macro-economic situation

Following a 2.9 per cent growth of the Hungarian economy in the year 2003, there has been observed an increase GDP of 4.0 per cent in the year 2004. From the demand side, growth continued to be determined by export and increase of investments. Households' consumption, the most important component of the use of GDP increased at a slower pace of 2.8 per cent. The output of industry increased by 6.4 per cent. The domestic trade increased by 1.1 per cent only, whereas the volume of exports exhibited a growth of 10.9 per cent. Thus, the increase of the industrial production in the year of 2004 was again the result of the extension of export. However, improvement of export was not uniform among the different branches. Full-time employees gross nominal income averaged at HUF 145,700 a month, the net amount being HUF 93,800.

Real wages increased by 9.2 per cent, followed by a 7.5 per cent higher household consumption.
An accelerated growth of retail trade of the years 2002-2003 was followed by a slowdown in 2004. The increase of turnover was 5.9 per cent in 2004.
A progress in house-building around the turn of millennium was attested by a yearly 10 per cent increase of the number of apartments taken in use from 2000. In 2004, some 44 thousand new apartments were built, a number unprecedented since the beginning of transition to market economy. Investments related to apartments went up by 13 % in 2004, their share in the total of the national economy's investments growing from 23 % to 25 %.

The number of new apartments amounted to 35 543, 12.8 per cent more than in the course of the previous year. There were 59 241 new building permits processed in the country.

General characterisation of Hungarian forestry

The Hungarian forestry authority, with the use of the database of the National Forest Stand Data-bank, has been for many years compiling the annual reports about the forestry activities according to consistent professional points of view.
The data below are taken from the latest report:

On the basis of the above indicators, it can be stated that there is a planned, well-controlled sustainable forest management taking place in the country.

The rate of timber removals has stayed importantly below the biological potential. Forest managers fulfilled their obligations of forest regeneration in 2004 on at a good professional standard. The forest regeneration has compensated for the harvested forests in terms of both quantities and quality. The state of health of forests has slightly improved as evidenced by the rate of defoliation related to that in the previous years. In the course of the coming years, the massive propagation of Lymantria dispar has to be paid much attention.

Table 1.

	Year 2002.	Year 2003.	Year 2004.
Forested area, th. ha	1,821	1,836	1,843
Growing stock, gross million m3	328.8	330.9	334.3
Completed regeneration of forests, th. hectares	20.0	20.0	19.3
Afforestation, th. hectares Completed first from above, th. ha	15.2 8.6	12.0 9.5	7.6 10.3
Removals, gross th. m3	7,015	7,084	7,094
Removals, percentage of annual forest plan potentials	74	72	70

Distribution by ownership of the lands of planned forestry activities was as below:

Table 2.

Forest land owner	Area. th. ha	Share. %
State	1.048	57
Public (municipal etc.)	15	1
Private	780	42
Mixed*	0.1	…
Total	1.843.1	100

*New category

Distribution of forestland area by use: **Table 3.**

Use Owner	Protection	Production	Health, social and tourisme	Education and research
	per cent			
State forests	24.8	30.7	0.8	0.2
Community forests	0.3	0.4	0.1	0.0
Private forests	5.7	25.7	0.2	0.0
Without being managed	3.6	7.4	0.1	0.0
Total	**34.4**	**64.2**	**1.2**	**0.2**

These proportions have slightly changed to the advantage of the protective forests during the last years. This revaluation seems to be completed by now, and after a more pronounced decrease of the share of productive forests in the previous years this decrease was only 0.1 per cent in 2004.

Removals

A comparison of directions and facts is geven in Table 4. below:

Table 4.

Years	Total forest area used		Gross volume removed	
	Thousand ha	Percentage of plans	Thousand m^3	Percentage of plans
1981-90. average	105	95	8,016	99
1991-95. average	85	95	6,267	76
1996.	85	77	6,604	80
1997.	88	78	6,713	80
1998.	90	78	6,579	77
1999.	94	80	6,901	79
2000.	94	80	7,287	79
2001.	92	70	7,011	75
2002.	93	76	7,015	74
2003.	93	73	7,086	72
2004.	**103**	**75**	**7,095**	**70**

It can be stated on the bases of the above data, that forest managers did not exploit the potentials of the operating plans that lead to a further increase of reserves. After the slump in 1994, removals continuously increased then settled at 7 million cubic meters during the years 200 to 2004.
In the year 2003, felling was performed on 103 thousand hectares, out of which area some 28.7 thousand hectares were harvested. i.e. final cut performed on. The removed gross amount of 7.095 million m^3 of timber represents 70 per cent of the sustainable forest plan potentials.
The state forestry companies belonging to the ÁPV Rt. (State Privatisation Holding Ltd.) exploited their felling possibilities at 86 per cent on the average, while forest companies of private forest ownership at 51 per cent only. In the case of the latter, accidental inco-ordination of ownership and lack of operational and logistical capabilities may impede progress.

The need for nature conservancy presents itself as a continuing tendency in the management of forests. Currently. 34.4 per cent of the total forested area is protected and this trend puts further limits to timber harvesting.

The state of wood processing industry

It can be expected that the output of the wood-processing branch will exhibit a rate of increase over that of the whole of industry. A quickening of the domestic demand, first of all that of house-building is encouraging this increase. Due to these facts it can be anticipated that the demand for wood products will further grow.

Preliminary production volumes for the year 2004 based on the reports not yet complete are shown in the table below, and the same are related to numbers of the year 2003.

Table 5.

Product	Production 2003	Production 2004*	Index. 2004/2003 %
Removals (net timber volume	5,667	5,660	99.9

above cut surface). thousand m^3			
Sawnwood thousand m^3	299	199	66.6
Plywood thousand m^3	18	23.7	131.6
Fibreboard thousand m^3 Surface coated from the total	55	52.8 24.5	96
Particleboard thousand m^3 Surface coated from the total	489	520,8 398.7	106.5
Veneer. million m^2	37	42.9	115.9

*No final data available yet

Foreign trade of forest products

Foreign trade flows of forest products in 2002-2003.

Table 6.

Product category	2004	2004	Index (2004/2003)%	
	Thousand million HUF	million USD	HUF	USD
	EXPORT			
Wood and cork	58.4	286.6	115.6	127.4
Cellulose and paper waste	27.1	133.3	112.9	124.6
Wood raw material total	**85.5**	**419.9**	**114.8**	**126.5**
Wood-based products excluding furniture, including cork	64.1	315.1	105.5	116.4
Paper, paperboard, pulp and derived products	214.6	1 059.6	103.5	114.6
Processed wood products total	**278.7**	**1374.7**	**105.2**	**116.5**
Raw material wood and processed wood total	**364.2**	**1794.6**	**106.8**	**118.2**
	IMPORT			
Wood and cork	36.8	181.2	95.6	105.6
Cellulose and paper waste	3.4	16.8	84.6	94.6

Wood raw material total	**40.2**	**198.0**	**94.6**	**104.5**
Wood-based products excluding furniture, including cork	70.8	348.8	104.8	115.8
Paper, paperboard, pulp and derived products	130.0	641.2	104.8	116.1
Processed wood products total	**200.8**	**990.0**	**104.3**	**115.5**
Raw material wood and processed wood total	**241.0**	**1 188.0**	**103.3**	**114.4**

Export value of **wood and cork** was HUF 36.8 thousand million, Import value was HUF 58.4 thousand million, the former representing a decrease of 4.4 % while the latter an increase of 15.6 percent when compared to figures of the previous year. The increased demand for raw material in the wood processing industries was covered to a lesser extent by domestic timber production and to a larger extent by import. The shortage of wood almost doubled, clibing from HUF 12 thousand millions in the last year to HUF 21.6 thousand millions in 2004.
The export value of HUF 3.4 thousand millions of cellulose and paper waste shows a decrease by 15.4 per cent, at the same time the import value increased by HUF 27.1 thousand millions corresponding to a rate of 12.9 which is some lower than that for wood raw material. The foreign trade shortage of this category of products moderately changed to worse by HUF 3.7 thousand millions.

For the **wood raw material** in total, import values amounted to HUF 85.5 thousand millions and export volumes to HUF 40.2 thousand millions, corresponding to a 14.8 per cent increase for the former and a 5.4 per cent decrease for the latter, contributing to a growth of HUF 13.3 thousand millions of the shortage of foreign trade balance.

For the **wood-based products,** besides the export value of HUF 70.8 thousand millions as well as the import value of HUF 64.1 thousand millions, corresponding to rates of increase of 4.8 % and 5.5 % respectively, the shortage of foreign trade balance worsened by HUF 5 thousand millions. The export value of **paper and paperboard** amounting to HUF 130 thousand millions and that of import amounting to HUF 214.1 thousand millions represent increase by 4.8% and 3.5 % respectively as compared to the previous year's figures, leading to a moderate growth of foreign trade shortage of HUF 1.3 thousand millions.

Export value of **processed wood total** was HUF 200.8 thousand million. Import value was HUF 278.7 thousand million, the former representing a decrease of 4.3 % and 15.6 percent respectively when compared to figures of the previous year. The surplus of this category of products decreased by HUF 2.7 thousand millions.

Product category	**2004**	**2004**	**Index (2004/2003)%**	
	Thousand million HUF	million USD	HUF	USD
	BALANCE			

Wood and cork	-21.6	-105.4	-12.0	-53.3
Cellulose and paper waste	-23.7	-116.5	-20.0	-89.2
Wood raw material total	**-45.3**	**-221.9**	**-32.0**	**-142.5**
Wood-based products excluding furniture, including cork	-27.3	-133.9	-22.3	-99.0
Paper, paperboard, pulp and derived products	-84.6	-418.4	-83.3	-372.1
Processed wood products total	**-111.9**	**-552.3**	**105.6**	**-471.1**
Raw material wood and processed wood total	**-157.2**	**-774.2**	**-137.6**	**-613.6**
Source: KSH (Central Office of Statistics) Foreign trade newsletter March 4. 2005..				

With regards to **forest industry products** (wood raw material plus processed wood products) the export value of HUF 241.0 thousand millions is contrasted by that of import amounting to HUF 364.2 thousand millions, both corresponding to increase, 3.32 % and 6.8 % respectively, as compared to the data of the year 2003.

The upvaluation of Hungarian currency in 2004 contributed to a growth to two decimal places of the purchase of raw material in the wood industry. However, the cheaper import in the domestic market of processed wood products improved the situation of foreign competitors to a similar extent.
The stagnating demand in the export markets, the strong currency as well as the increasing production costs put the competitiveness of the export oriented part of wood industry back, and the dynamics of export went down. At the same time, in the "years of abounding" the increase of domestic demand improved the conditions of wood-processing companies, first of all small and medium ones, supplying home markets.
The price-equalising process following the accession to the EU will finally lead to a structural change of wood industry, the consequences of which will result in changes of the profitableness of forestry and in the price ratios of the different forest-based products.
In the previous years the sawmilling industry would process logs of inferior quality too, however today most of the production capacity is built down due to lost of markets; these products became unmarketable, their price went down.

The expanding energetic use of wood is not able to compensate for the cutback in the woodworking industries, however it is calming down the fall of forest products' prices and the further decrease of profitability of forestry.

The dynamics of wood import indicates that the woodworking industry is capable of providing domestic and foreign market a merchantable supply, however the increasing shortage of trade balance shows a gradual penetration of foreign competitors.

Vision

The programme of building homes as well as other important projects of development initiated by the Government gives new perspectives to the housing industry and. as a consequence. expectations to the woodworking industry. Saw-milling industry may derive benefit of this tendency in the short term and panel industry in the long term. This may also mean that the import of coniferous roundwood and sawnwood as well as that of wood-based panels not manufactured in the country will probably increase. but the domestic producers of wood-based panelling and flooring will have an access to a better market too. However, the economic situation of the European Union and the rate of change of the Hungarian currency are decisive for the export-driven sectors of woodworking industry.

An important part of the biological potential of fellings in Hungary could be utilised in the energy market. This is a possibility that worth attention in the case if consumers can be convinced of the use of renewable sources of energy. just like wood. The question today is not primarily a biological and technological one. rather it is related to logistics and financial support. Recently several power plants that are interested in regional heat and electric energy supply have decided to convert to fuel wood burning. It is even more unfortunate that they do not rely on reserves of timber removals. nor on used wood and the establishment of energy plantations is only planned on a long-term perspective. Power plants are aiming at exploiting the resources already being used by the panel plants. thus benefiting the subsides provided for the use of renewable sources of electric power and offering higher prices for wood in the rough. This situation makes the vision of wood-based panel industries risky.

With regards to the international context

- The Hungarian republic is a full member of the European Union. For that reason it acts in matters relating forest management according to the pertinent rules of the EU.
- Hungary is one of signatory countries of the declarations by the Ministerial Conference on the Protection of European Forests. At its 4th conference in Vienna, in 2003, the Hungarian minister of agriculture and regional development signed, on behalf of the Government, a declaration and five resolutions as voluntary commitment.
- In accordance with the declaration and resolutions signed in Vienna, on the basis of voluntary commitment, the Hungarian Government, with its resolution of 1110/2004. (X. 27.) accepted the National Forests Programme for the years 2006 to 2015. The first stage of implementing the same will be the fiscal year 2006.