

Land market in Hungary

Trh půdy v Maďarsku

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Abstract: In Hungary, after the political and economical transition period of the nineties, the transformation of agriculture, the privatisation and the partial compensation brought about fundamental change in the land ownership structure. Recently, the private ownership of land has become dominant. As a result of the land compensation and the restoration of individual shares of the co-operatives members, unfavourable farm structures were established in a great number of cases; and consequently the redistribution of land property has become indispensable. The revival of the market is hold up, on one hand, by the present legislation of land acquisition (by Hungarian legal entities and foreigners) and, on the other hand, by the repugnance of the land acquisition of foreigners by a great number of people. The political risks, the EU accession and the changes to be expected concerning the EU subsidy schemes might also affect the land market in the long-term.

Key words: transformation of agriculture, agricultural land, land ownership, land use, co-operative, state ownership, private property, Act on Land, land acquisition, land lease, the National Land Fund, market of agricultural land, land price, mortgage

Abstrakt: Po období politické a ekonomické transformace v Maďarsku na začátku 90. let s sebou transformace, privatizace a částečná majetková kompenzace přinesla základní změny ve struktuře vlastnictví půdy. V tomto období se stalo převažujícím typem soukromé vlastnictví. Jako důsledek kompenzací půdy a znovuoobnovení vlastnických podílů v zemědělských družstvech se vytvořila v řadě případů nevyhovující struktura podniků a následně se stala nezbytnou redistribuce vlastnictví půdy. Obnovení fungování trhu půdy je však na jedné straně bržděno současnou právní úpravou bránící nákupu půdy (pro maďarské právnické osoby a pro cizince), na druhé straně také značnou mírou odporu proti prodeji půdy cizincům. Politická rizika, vstup do EU a předpokládané změny týkající se systému podpor v rámci EU mohou rovněž dlouhodobě ovlivnit fungování trhu půdy.

Klíčová slova: transformace zemědělství, zemědělská půda, vlastnictví půdy, užívání půdy, družstva, státní vlastnictví, soukromé vlastnictví, Zákon o půdách, nákup půdy, pronájem půdy, Národní pozemkový fond, trh zemědělské půdy, cena půdy, hypotéka

CHARACTERISTICS OF THE HUNGARIAN AGRICULTURE IN THE NINETIES

In Hungary, the share of agriculture in the GDP was continuously decreasing in the nineties. There was a slight increase in 2001 compared to the previous year. The proportion of agricultural workers was also decreasing continuously. At the end of the decade, the share of agricultural and food products in consumption expenditures was of about 30%; however, this is still higher than the average of the countries with developed market economies.

The share of agriculture and food industry in the total export also decreased by one third between 1990–2001, however, during the same period, industrial exports increased by a larger extent. In the nineties, the positive balance of food industry could always be maintained (Table 1).

LAND USE

The area of Hungary was 9 303 thousand hectares in 2001; 63.8% of it was agricultural land. In agricultural land, arable land is dominant; that is, 77.0%. The proportion of grassland – also in agricultural area – was 18.1%. In 2001, 19.0% of the total area were forests and 16.9% was uncultivated land.

In 2001, the share of corporate organisations (corporations and co-operatives) in land use was about 39.1%; while that of private farmers was of 45.1%. At the same time, there were 13 078 corporations (with legal entities and without legal entities) and 24 583 private farmers, entrepreneurs. (The number of the registered organisations was much higher).

The distribution of the individual farms (according to the area of agricultural land) shows that the share of the farms with land area below 10 hectares was nearly 90% (Table 3).

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Table 1. Main economic indicators characterising the Hungarian agriculture

	1990	1995	2000	2001
Proportion of agriculture in the GDP (percentage)	12.6	5.9	3.6	4.5***
Proportion of agricultural workers (percentage)	14.2	8.0	6.5	6.2
Proportion of agriculture in investments* (percentage)	7.9	3.0	2.9	3.0
Proportion of agricultural and food products in the consumption expenses of households (percentage)	39.2	34.5	29.2	31.0***
Proportion of agricultural and food products in the exports** (percentage)	23.1	22.0	6.9	7.5
External trade balance of the agricultural and food industry products (billion HUF)	98.0	227.6	302.2	374.8

Source: Hungarian Central Statistical Office (KSH)

* From 1995 investments include also that part of VAT which cannot to be deducted

** Until 1996 without the statistics of the free zone which is not characteristic for the agricultural and food export

*** Estimate

Table 2. Land use in Hungary by legal forms of farms

Legal form	1996	2000	2001	In 2001 (%)	
	thousand hectares			1996	2000
Corporate organisation	4 625	3 871	3 660	79.1	94.5
Private farmers	3 152	3 903	4 175	132.5	107.0
Others	1 526	1 529	1 468	96.2	96.0
Total	9 303	9 303	9 303	100.0	100.0

Source: Hungarian Statistical Pocketbook 1997 and 2001 Hungarian Central Statistical Office, Budapest

Table 3. Individual farms by the area of agricultural land

Size of the farm (hectare)	Proportion of farms (%)
–0.15	28.63
0.15–0.50	32.48
0.51–1.0	10.79
1.1–5.0	18.52
5.1–10.0	4.39
10.1–50.0	4.47
50.1–100.0	0.48
100.1–300.0	0.23
300.0–	0.03
Total	100.0

Source: General Agricultural Census 2000 Agriculture in Hungary in 2000 – data on the area. Central Statistical Office, Budapest, 2000

Table 4. Corporate organisations by size classes

Size of the farm (hectare)	Proportion of farms (%)
–0.10	12.71
10.1–50.0	21.13
50.1–100.0	9.65
100.1–300.0	19.51
300.1–500.0	5.32
500.1–1 000.0	9.85
1 000.1–5 000.0	20.7
5 000.1–10 000.0	0.91
10 000.1–	0.84
Total	100.0

Source: General Agricultural Census 2000 Agriculture in Hungary in 2000 – data on area. Central Statistical Office, Budapest, 2000

On the other hand, the distribution of corporate organisations according to size illustrates that more than 50% of the farms have land area over 100 hectares (Table 4).

LAND OWNERSHIP

Up to 1994 – that is, the entry into force of the Act on Agricultural Land – agricultural land was not negotiable

on the real estate market of Hungary. The “types” of land ownership were as follows (Számadó 2000):

- Agricultural land brought into the co-operative remained in the ownership of the members as non-tangible assets (however, without the right of disposal).
- The co-operative using the land only obtained the rights of “land user” (not full proprietorship).

Table 5. The ownership structure by area (total area) as of 1st January 2001

Type of ownership	%
State (state holding, forestry, other in state property)	19.7
Co-operative	6.7
Corporate organisation	6.5
Local government	3.5
Other legal entity	0.2
Private	63.4
Total	100.0

Source: Ministry of Agriculture and Rural Development

- In the case of agricultural land in state ownership, state holdings were only given the rights of farming the land.
- The so-called private property was negotiable but only those areas which were defined as gardens and located in urban areas (in fact private property was agricultural land but in practice it was more than that since in addition to vineyards and orchards it could include a cellar and most recently also a summer-house).

It can be seen from the ownership structure that in 2001, the share of the state property did not reach 20% (Table 5).

As for the agricultural land, 86.6% was in private property in 2001.

Compensation

Due to the delayed compensation process, the compensation land auctions were also in process in 2001, however, to a decreasing extent. The land auctions were based mainly on agricultural land in state ownership (the so-called land fund of category II). The full-scale completion of the auctions and the termination of the compensation might require more time (the reasons are that legal procedures against the land fund separation plans are delayed and that auctions cannot be published if the legally valid land fund is lacking).

In the frame of the restoration of individual shares of co-operative members¹, the eligible property of more than 2 million landowners has to be restored. The extent of the land fund of individual shares of co-operative members exceeds 56.4 million gold crown.²

¹ The restoration of individual shares of co-operative members means that the land assets brought into the co-operative by the members are redistributed in kind to the members and that the property of the land fund established for the members and the employees is to be transferred.

² The gold crown value is a measurement unit of the quality of arable land in Hungary. Based on the 200 years old definition, the gold crown value of a certain land means the net income of that area; at that time it was proportional to wheat produced on the area reduced by the transportation expenses to Vienna. In the European Union, there is a certain scoring system for measuring the quality of arable land. (This is approximately the gold crown value plus 45).

Act on Land, land acquisition

Act LV of 1994 (amended several times) on Agricultural Land regulates, among other, the land ownership acquisition.

Property acquisition of Hungarian private persons: cannot exceed 300 hectares or 6 000 gold crowns.

Property acquisition of Hungarian legal entities:

1. Hungarian legal entities and organisations without legal entities cannot acquire property – with the exception of the Hungarian State, the local governments and public foundations.
2. Legal entities of churches can acquire property based on testamentary disposition, donation, and contracts of alimony or caretaking.
3. Mortgage banks can acquire property with restrictions and duration regulated by Act XXX on Mortgage Banks and Mortgage Deeds.

Property acquisition of foreigners

1. A foreign private person or legal entity cannot acquire the property of agricultural land or the land of natural parks.
2. A foreign private person can only acquire the ownership of a farmstead provided the area of it does not exceed 6 000 m² according to the specific regulations on real estates other than agricultural land.

Land lease: The regulations on leasing of Civil Code apply to land lease. The duration of the land lease is regulated by the Act on Agricultural Land. Based on it Hungarian private persons and legal entities or organisations without legal entities – with the exception of the Hungarian State and local governments – the duration of the land lease cannot exceed 10 years. Only one branch of cultivation is excluded, that is forest and land leasing for afforestation; this can only be contracted until the end of the fifth year following the termination of the production period (felleable age). In the cases of vineyards, orchards or of other plantations – or if vineyards or orchards are to be planted – the land lease can only be contracted until the end of that year when the plantation is still of value (period of depreciation). The duration of the contract of lease with the Hungarian National Land Fund – a company in public interest – as lessor, cannot exceed 50 years.

A foreign private person and legal entity can only sign a contract of lease for the same duration as a Hungarian private person.

The question of land ownership has aroused a still more fierce debate. The arguments against selling it to foreigners are based mainly on national feeling, on the

emotional relationship to the country and to the land of Hungary. The EU accession of Hungary is a kind of threat for a great number of people. Before 1994, there was a legal opportunity also for foreigners to acquire property. Since then the situation has changed and now there is only an illegal way, that is, the so-called 'pocket contract' which is a rather dubious solution. Based on estimates, the area 'acquired' in this way is about 350–400 thousand hectares and even according to moderate estimates it is much more than 150–200 thousand hectares. Our opinion is that the fear that in Hungary, after the EU accession, foreign agricultural producers and speculators will acquire the land of whole Hungary, is unfounded. Even within the European Union there are numerous sophisticated ways for regulating the free land market with restrictions; this is in particular true for agricultural land; and the regulations of the individual Member State might also include restrictions excluding even some of their own citizens.³

Based on the statistical data in agriculture, sylviculture and fishery, the share of foreign capital in total capital was 8.6% in 2000. This share in food industry was much higher, that is, 59.9%. In the sectors of trading and repairs, the share of foreign capital in the total capital of the enterprises was in total 38.6%; in food trade it was approximately the same.

Hungary was, during the accession negotiations, granted a transition period of 7 years concerning the property acquisition by foreigners. This restriction is eased by the regulation that agricultural individual farmers coming from an EU Member States will be able to purchase agricultural land immediately after the accession provided that by then they will have been Hungarian residents for at least 3 years and are engaged in farming.

Table 6. Areas transferred and to be transferred to the National Land Fund

Branch of cultivation	Area (hectare)
Arable land	280 910
Grassland (meadow, pasture)	56 109
Vineyards	5 920
Gardens	2
Orchards	7 369
Reeds	3 239
Forests (+ afforestation)	26 730
Fish ponds	7 287
Uncultivated land	13 398
Total	400 964

Source: National Land Fund

THE NATIONAL LAND FUND

The goal of the establishment of the National Land Fund (Act CXVI of 2001) is as follows:

- to manage the land fund in the property of the Hungarian State reasonably
- to facilitate the use of agricultural land by taking into account the ecological conditions of agricultural production as well as the economic efficiency and profitability and
- to assist the development of a rational farm structure based on family farms.

In future, the National Land Fund – in addition to its present tasks – will primarily serve the unified management of agricultural land and forest in state property. Moreover, it will also assist the land consolidation (Table 6).

MARKET OF AGRICULTURAL LAND

Due to the political and economical transition, the ownership structure has been fundamentally transformed in Hungary. The value of land, the land use and the land rent became of significance for the market. In spite of this, at present there is only a limited land market in Hungary (Karalyos 2001). The reason of the land market stagnation was that until 1997 land sale was stagnating based on the Act on Compensation, according to which the land which was returned to the original owners could not be sold for 3 years.

Land price

In 2001, the price of one hectare of average quality land was fluctuating slightly over one thousand EUR (250–350 thousand HUF) in Hungary. In the European Union, the lowest land price is between 3–5 thousand EUR. Figure 1 shows the land prices in Europe.

The regional distribution of land prices in Hungary shows extreme values (Table 7).

Table 7. Land prices in Hungary

Area	Quality (golden crown)	Price class (thousand HUF/ha)
Western Transdanubia	15–30	300–500
South Transdanubia	15–30	200–300
Budapest and surrounding	15–30	300–1000
Great Plain	15–40	200–400
North of Hungary	5–15	50–200

Source: Bálint (2001)

³ A real picture is presented by Dr. Franz Greif in his study on the land of the cross border areas and land ownership of foreigners. Bodenrecht und Bodenmärkte mittel- und osteuropäischer Länder, Bundesanstalt für Agrarwirtschaft, Wien, im Februar 2002.

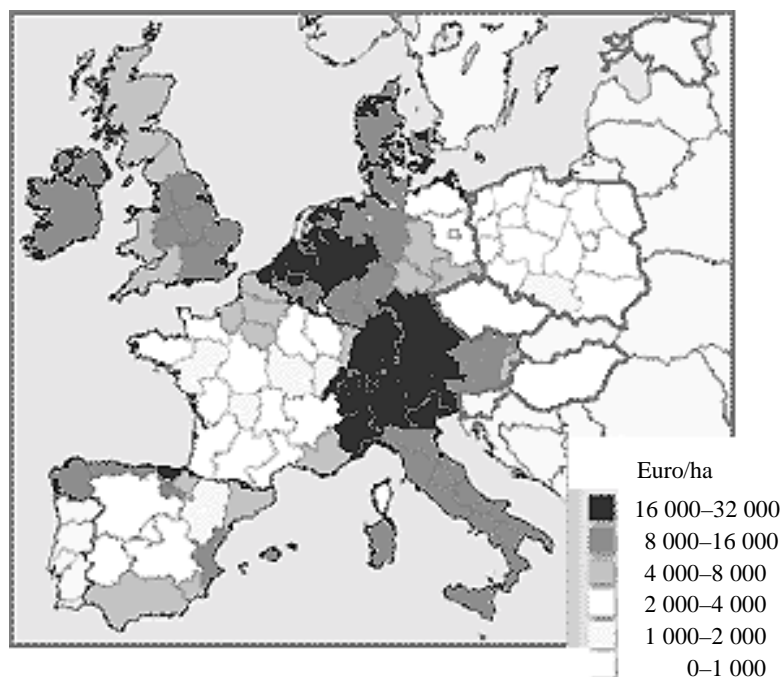


Figure 1. Land prices in Europe

Source: www.foldbroker.hu/images/europa.gif

The development of land prices is influenced by the following factors (Bálint 2001):

- legal regulation (prohibition of the land purchase to Hungarian legal entities)
- date of Hungary accession to the EU (property acquisition by foreigners) and
- development of the subsidy schemes and profitability.

Mortgage

Following the system change (in the political and economic sense), the mortgage bank was first established in 1997. The first mortgage bank started lending on mortgage in March 1998 covered by collateral security and later in December started to issue mortgage deeds in order to be able to finance the mortgage loans. Until 2002, there were three mortgage banks (Land Loan and Mortgage Bank Share Company, Hypovereins Mortgage Bank Share Company and the Mortgage Bank of OTP) established. The establishment of the Land Loan and Mortgage Bank Share Company was highly expected and a great number of people expected that it would provide a solution for agricultural credits. Unfortunately these expectations were not fulfilled.

FUTURE DEVELOPMENT

In the future, the development of the land market demand will be determined by easing the restrictions on property acquisition (by economic organisations, foreigners) and later by the lifting of them (as a result of the EU accession). The EU accession does not mean that

Member States cannot or do not intervene into the regulation of the land market but distinguishing between the property acquisition of natural persons and legal entities will not be possible.

Obviously the demand has also absolute limits (the area of the land available) and in addition to this the capital, the motivation of land purchase of the potential purchasers are also influencing factors depending on the expectations.

Based on the expectations preceding the operation of the National Land Fund in the future, it might also have an effect on the revival of the land market.

As for land prices, experts' opinion is that probably a rise can be expected in the European Union even prior to the EU accession, it is, however, unreal to expect to reach the level of the EU.

In general, it is characteristic for the supply side that land owners would like to get rid of first of all of their tenancy in common acquired during the compensation. Owing to the various problems (numerous owners), these lands can only be sold at low prices.

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