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The Hungarian land market after EU Accession

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Abstract

Besides its natural potential, Hungarian agriculture's **major current advantage is low land prices and rental fees**. Economic theory suggests that as Hungarian economic performance approaches the EU average, production costs will also become equal. Increasing land prices, generated by higher rentals fees, will mean landowners continually remove more agricultural income and Hungary's competitive advantage will dwindle. Moreover, subsequent capital withdrawal will lead to weaker agricultural investments. The aim of **land policy** is to **assist the land use of those farmers who make a living from agricultural production**. To increase competitiveness one needs income security and policy efficiency **meshing land ownership with land use for those farms wishing to acquire more land**. This is particularly true for full-time farmers and for farms that can become commercially viable. Presently the **land market is unstable**. This instability, coupled with rigid legislative controls on a rising desire for land acquisition, could lead to escalating land prices. A sudden surge in prices would hurt *hands-on* farmers, and strengthen the bargaining power of those landowners who are not actually engaged in farming.

Keywords

agricultural land, volume of land market transactions, land prices, land rents

Introduction

When Hungary was joining the EU, the country endeavoured to facilitate land purchase for those individual Hungarian farmers² who were not yet fully competitive. Hungary therefore asked the Commission to extend the prohibition on foreigners' buying land, justifying its request by citing **low land prices** and the accompanying risk of **speculative purchases by foreign capital**. Total restriction was not possible since it contradicts one of the Union's key principles, meaning the free movement of capital. The Hungarian restriction is thus only partial as under certain conditions EU citizens can purchase Hungarian property. The restriction is also provisional as the derogation is only valid for seven years and in fact refers only to land purchase by legal persons (collective organisations considered as having a legal identity) and non-resident EU citizens. On the basis of the Commission's report, the **Council may unanimously opt** (Hungarian support being mandatory for this to happen) to reduce or cancel the provisional period. To assess **Hungary's position** it is necessary to analyse those arguments which were put forward when Hungary was joining the EU so to determine whether they are still valid or if new **arguments** should also be considered as a result of **changes stemming from Accession**.

Without exception the pertinent literature recognises the factor of low land prices, which was used to justify the derogation. The derogation period enabled **Hungarian farmers and agriculture to consolidate, become more market oriented, and permitted, in the long run, Hungarian land prices to gradually reach the price level of other Member States, while rendering impossible speculative land purchases by foreigners**. During the derogation period, Hungary could retain national legislation that **restricts purchasing Hungarian agricultural land by non-resident foreign citizens and legal persons** (with or

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² individual farms (or "household" or "family" farms)

without legal entity, meaning legal persons and unincorporated entities). As for **leasehold**, the derogation period is not applicable since from the outset Accession regulations extended lease rights to both private individuals and legal persons (with or without legal entity) from the Member States and for Hungarian natural and legal entities.

Some major documents on the Hungarian land market have been produced. Among these are Szűcs' (1998) analysis of Hungarian land prices and lease payments, and Csendes/Szűc's (2002) research on the factors influencing land market supply and demand, plus an analysis of Hungarian agricultural land ownership and land use structure (Swinnen, – Vranken, 2003) (Sadowski – Takács – György, 2005). Also significant are conclusions from Frandsen and Jensen's 2000 model analyses regarding CAP subsidies in the new Member States. Last but not least are Ciaian/Swinnen's 2005 research results on how subsidies affect the land market, and the impact of CAP reform, plus Kovács' 2006 study on transition to the Single Payment Scheme (SPS)

Further examination of the Hungarian Land Market rests on a review of those arguments Hungary presented in favour of derogations concerning the transitional measures prohibiting the purchase of agricultural land by foreigners and legal persons (with or without legal entity).

1. Data and methodology

An examination of post-Accession **changes** (land use, land ownership, land market) has been conducted using **the pertinent literature, statistics, complementary data gathered and empirical** analyses. A comparative analysis allows one to assess **the validity of the arguments** presented at the time of Accession, plus whether **maintaining current measures is justified as well as the the viability of new arguments as to** whether to lift or extend the land acquisition prohibition.

Such an **assessment is difficult** since the relevant statistics really only cover 1-2 years of the brief post-Accession period and thus cannot reflect actual tendencies. Official Hungarian statistics do not provide any data on agricultural land's market price, rendering impossible the calculation of average land prices. Moreover, the official data collection system for lease payments gives merely representative data at the national level. Even in the EU there is **no unified methodology for collecting land prices**. The most recent available EU land market statistics (Eurostat, 2006) provide no data on 13 Member States. In 2004 only 10 Member States presented land price data and only six Member States provided any information on lease payments.

2. Regulations on EU agricultural land acquisition

In rural areas farmland is not only related to production, but also to a specific way of life. Land utilisation's economic role is to ensure the long-term development of agricultural production. The Treaty of Rome deals with agricultural land in relation to agricultural products, while the Common Agricultural Policy does not directly apprise it. When the European Economic Community was first being founded agricultural land did not play a major role in foreign capital investments, and the focus was on the free movement of goods, services, and factors of production. However, since then agricultural land prices have shot up and

agricultural land has captured more attention, leading Member States to come to **mutual agreements on land purchase**.

Article 67 of the Treaty of Rome, and in particular the first Article and the second paragraph of the Annex of Council Directive No. 88/361/EEC (on the implementation aiming to assist the free movement of capital), includes the gradual **cancellation of prohibition** and discrimination of “persons native and native in foreign countries” – meaning EU citizens – in **property purchase**. The Single European Act stipulated that from 1 January 1994 the movement of capital became unlimited. The paragraph in the EU’s Maastricht Treaty replacing Article 67 only permits restriction on movement of capital between Member States and Third countries. Other than this, the Union does not regulate land markets and allows for **different land policies within Member States** (Marton et al., 2003).

When it comes to land acquisition, European Union legislation contains nothing more precise or restrictive than this regulation. The Directive on the prohibition of **discrimination** by Member States affects national legislation. The prohibitions effective from 31 December 1993 can be maintained regarding Third countries³. By aiming to implement as fully as possible the free movement of capital among Member States and Third countries the Council – based on the Commission proposal – may by qualified majority also enact further measures on the land market. It may also enact total and obligatory cancellation of any of the prohibitions regarding land acquisition and leasehold.

3. Land rental market

Privatization measures led to private land ownership and farming based primarily on land lease. Recently **permanent land lease has** replaced ownership as the dominant trend in agricultural land. Here the land rental market is not viewed as a part of the land market; but land market factors impact on it⁴. Therefore, **before discussing land ownership and the land market it is necessary to analyse actual land use and its recent changes**.

Land use

General trends in **land use** were already apparent prior to Accession. Counting the number of farms coupled with statistical⁵ analysis of how farms use their land provides useful information. For example, in 2005 there were 13.2 thousand farms with an area above 50 hectares, and this amounted to 1.98% of all farms. Farms in this greater than fifty hectares category used 76.8% of their total area. There were 49.2 thousand farms with more than ten hectares and this entailed 7.4% of total farms. These farms used 89.9% of their total area. Compared to 2000, the average productive area of farms above 50 hectares (332.4 ha) decreased by a quarter, and compared to 2003 fell by 6.1%. On the other hand, **the average (productive) area of farms above 100 hectares (104.3 ha) increased slightly** (by 4% to 2000 and by 3.6% to 2003).

If one compares European Union Statistics (Eurostat, 2005), one gets the following results: 161 thousand farms larger than one European Size Unit (ESU)⁶ used 4,081 thousand

³ 1 January 1998. regarding Hungary

⁴ In the literature examples of the joint discussion of land market and land rental market also can be found.

⁵ The statistical economic threshold of land use is only 0.15 ha or in the cases of plantation or vineyards 0.05ha!

⁶ The economic size of farms is expressed in terms of ESU.

hectares (96.6% of the Utilised Agricultural Area (UAA)⁷. In 2003 in Hungary the average agricultural area cultivated by these farms (25.3 ha) exceeded the EU-25 average (22.6 ha) by 11.9%, and the EU-15 average (24.0 ha) by 5.4%.

After Accession, in the year 2005, the average area of small cultivated plots statistically recognised as farms reached 8.6 hectares. However this figure requires further scrutiny as there are different trends governing small individual farms and other agricultural operations (agricultural enterprises, not including private farmers); the **average size of individual farms increased** to 3.4 hectares while the size of **other agricultural operations** fell to 485.7 hectares (Table 1).

Table 1

Number and area of individual farms and other agricultural operations using land

Size classes	Farm		Area		Average area (ha)	Farm		Area		Average area (ha)
	No.	Distr. (%)	ha	Distr. (%)		No.	Distr. (%)	ha	Distr. (%)	
	2003					2005				
Individual farms										
under 10 ha	662,856	93.6	669,752	28.4	1.01	616,070	93.45	574,154	25.3	0.93
10-50 ha	37,132	5.2	763,578	32.4	20.56	34,149	5.18	699,147	30.8	20.47
50-100 ha	5,130	0.7	354,326	15.0	69.07	5,340	0.81	369,990	16.3	69.29
100-300 ha	3,062	0.4	509,682	21.6	166.45	3,494	0.53	556,913	24.6	159.39
above 300 ha	153	0.0	60,351	2.6	394.455	198	0.03	68,281	3.0	345.25
Total	708,333	100.0	2,357,689	100.0	3.33	659,251	100.00	2,268,486	100.0	3.44
Agri-business operations										
under 10 ha	1,190	17.3	4,514	0.1	3.79	1,193	16.83	4,474	0.1	3.75
10-50 ha	1,764	25.6	46,526	1.3	26.38	1,784	25.17	46,803	1.4	26.24
50-100 ha	836	12.1	60,414	1.7	72.27	918	12.96	65,042	1.9	70.83
100-300 ha	1,567	22.7	307,975	8.9	196.54	1,486	20.97	282,194	8.2	189.91
above 300 ha	1,534	22.3	3,052,663	87.9	1,990.00	1,706	24.07	3,042,874	88.4	1,784.05
Total	6,891	100.0	3,472,092	100.0	503.86	7,086	100.00	3,441,386	100.0	485.66
Total of the farms										
under 10 ha	664,046	92.8	673,922	11.6	1.01	617,161	92.62	578,981	10.1	0.94
10-50 ha	38,896	5.4	810,340	13.9	20.83	35,982	5.40	745,709	13.1	20.72
50-100 ha	5966	0.8	414,497	7.1	69.48	6,264	0.94	435,092	7.6	69.46
100-300 ha	4629	0.6	817,918	14.0	176.69	4,998	0.75	838,780	14.7	167.84
above 300 ha	1687	0.2	3,113,103	53.4	1,845.35	1,932	0.29	3,111,309	54.5	1,610.09
Total	715,224	100.0	5,829,781	100.0	8.15	666,337	100.00	5,709,872	100.0	8.57

Source: Agriculture of Hungary 2003, Farm Structure Survey (FSS) Vol. I. Hungarian Central Statistical Office (HCSO) 2004., Agriculture of Hungary 2005 FSS, Vol. I. HCSO 2006.

In 2005 the 3.4 ha average area cultivated by the **659.2 thousand individual farms** was too small to provide a livelihood, and thus most should be considered as households⁸ rather than authentic farms. One gets a more realistic picture on land use by filtering out small

⁷ Utilised Agricultural Area (UAA)

⁸ Since under 10 hectares of land, only farming generally is not providing sufficient income for an average family.

“statistical farms” with under 10 hectares. **43.2 thousand individual farms with more than 10 hectares**, meaning 6.5% of all individual farms, **used three-quarters (74.7%) of the total area attributed to individual farms. The average area of land use** is 39.2ha, an increase of 18.1% relative to 2000 and 5.7% compared to 2003.

The land use for other agricultural operations is more balanced than that for individual farms. About 7.1 thousand other agricultural operations use an average size of 485.7 hectares. The number of other agricultural operations increases (by 31.4% relative to 2000 and by 2.8% to 2003). **The average area decreases** (by 31.7% relative to 2000 and by 3,6% to 2003). This tendency in **land use concentration is also present for other agricultural operations**. 3.2 thousand of agricultural operations above 100 hectares (45.0%) use 96.6% of the total area attributed to other agricultural operations.

Leasehold

Regarding leased land, the pertinent literature and various databases differ regarding how much land is **rented**. However, all of them exceed the average EU-15 rates and the **tendency is increasing**. According to the FSS, **the share of rented agricultural area between 2003 and 2005 grew by 2% and reached 57.9% of the agricultural area used by farms** (Table 2). Enterprises farmed mostly on leased land (91.9%); and almost one fourth of the area cultivated by individual farms (22.7%) was also rented. The share of rented area parallels the increase in farm sizes. **Between 2003 and 2005, the share of rented land increased for both individual farms and enterprises** (by 8.9% and 2.3%, respectively).

Table 2

Share of rented agricultural land by farm size categories using land, (%)

Size classes	Individual farms			Enterprises			Total of the farms		
	2003	2005	Diff.*	2003	2005	Diff.*	2003	2005	Diff.*
under 10 ha	4.68	4.74	101.28	70.43	68.09	96.68	5.03	5.16	102.58
10-50 ha	16.68	16.82	100.84	81.50	79.71	97.80	19.35	19.73	101.96
50-100 ha	27.97	31.38	112.19	84.98	82.92	97.58	33.83	37.07	109.58
100-300 ha	40.04	39.19	97.88	88.75	89.47	100.81	56.23	53.71	95.52
above 300 ha	49.18	46.88	95.32	90.26	92.63	102.63	89.07	91.04	102.21
Total	20.82	22.67	108.89	89.85	91.91	102.29	55.04	57.90	105.20

* difference, change (index: 2003 = 100%);

Source: FSS 2003, 2005, HCSO 2006

In Western Hungary and Northern Hungary leasing land is more widespread, its share accounting for 64-68%. In the Great Plain regions farming one’s own land is more prevalent and thus the share of rented land is 16-17 percent lower (Table 3). Between 2003 and 2005 the share of rented land mostly increased in Northern Hungary and in the northern Great Plain regions, a respective increase of 6.9% and 5.1 %. In the Northern Hungary region this increase was primarily due to more farm enterprises opting to rent land (7.8-7.0 percent) and then individual farms (5.2 percent). However, in West Hungary the rented land share decreased by 2.8 percent and in South Hungary it remained at the 2003 level. Average farms above two ESUs rent two thirds of the agricultural land used. For individual farms the situation is the opposite, primarily farming their own land and renting only one third of the land they utilise. 98% of the land used by farm enterprises is leased.

Share of rented agricultural land in farms by regions, (%)

Regions	Individual farms			Enterprises			Total of the farms		
	2003	2005	Diff.*	2003	2005	Diff.*	2003	2005	Diff.*
Central Hungary	19.61	19.30	-0.31	90.30	88.97	-1.33	55.37	60.08	4.71
Central Transdanubia	28.51	25.51	-2.99	89.64	90.00	0.36	65.31	65.44	0.13
Western Transdanubia	35.96	35.83	-0.13	88.44	87.07	-1.36	67.07	64.30	-2.76
Southern Transdanubia	22.07	23.17	1.10	94.49	93.83	-0.66	65.85	67.92	2.07
Northern Hungary	24.40	29.57	5.17	91.01	98.77	7.76	57.21	64.10	6.89
Northern Great Plain	16.42	18.98	2.56	88.19	95.24	7.05	46.90	52.01	5.11
Southern Great Plain	15.76	18.02	2.26	87.42	89.17	1.75	43.95	47.09	3.13
Total	20.82	22.67	1.85	89.85	91.91	2.06	55.04	57.90	2.86

* difference, change of share (percent point)

Source: FSS 2003, 2005, HCSO 2006

Based on in-depth interviews with farmers it became apparent that leasehold contracts prevail. On average⁹ the contracts last about 8 years. The majority of farm enterprise contracts last 10 years. However, more than half of the individual farms had contracts from 5 to 9 years. Longer contracts are a negligible factor (Kapronczai, 2005).

Rental fees

Nowadays, rental fees tend to be based on an area receiving direct payments rather than on Golden Crown (GC)¹⁰ values; and probably this tendency will increase over the next period. In pre-Accession years 2003-2004 rents paid for arable land (crop-land) increased by 21.0% (Table 4). Between the post-Accession years 2004 and 2006 rental fees increased by 16.5%. **At present, the average cash rental rate for arable land (crop-land) reaches 66 euros¹¹ per hectare.** Presently **EU-15 rents are 3 to 6 times those of Hungarian rental fees.** This difference also exists among the old member states (Szűcs – Csendes 2002). Grass-land rental fees also increased by 25% compared to the pre-Accession fee. Following Accession, rents for grazing fields did not change and remain 22 euros per hectare.

Due to a complete lack of official statistics, regional trends and differences in arable land rental fees (crop-land) were determined through empirical analysis. **The highest rental fees are in Southern and Central Transdanubia and in the Northern Great Plain** (Table 5). In the Southern Great Plain, Western Transdanubia and Central Transdanubia rents are slightly lower (by 10-15%), while in the Northern Hungary region rents are only one third of those mentioned above.

⁹ The duration of the leasehold contract increased due to the 1995 Act CXVII on personal income tax in force, in accordance with paragraph 74 the income originating from land lease of more than 5 years is free of tax.

¹⁰ The "taxable net income" of each parcel of land registered in the land cadastre was established more than a hundred years ago, through Act VII of 1875, and was later converted to Gold Crown, the monetary unit of the Austro-Hungarian Monarchy. This valuation still serves as a basis for evaluating agricultural land for various purposes. The national average of "taxable net income" of all agricultural land is approximately 20 Gold Crowns per hectare.

¹¹ Further the euro value calculated with HUF 250 "theoretical" exchange rate.

Table 4

Land rental fees by land-use category (euro/ha)

Land type	2003	2004	2005	2006	Difference* (%)		
					2004	2005	2006
Arable land	47	57	61	66	121.3	107.0	108.2
Grassland	18	22	22	22	122.2	100.0	100.0
Vineyard	77	101	105	109	131.2	104.0	103.8
Fruit plantations	54	61	62	70	113.0	101.6	112.9
Forest land	16	18	19	23	112.5	105.6	121.1

* (index: previous year = 100%);

Source: Yearbook of Agricultural Statistics, 2005, HCSO 2006

Table 5

Rental fees of arable land by regions and by the quality of land, January 2007 (euro/ha)

Region	Quality of land			
	Poor	Average	Good	Excellent
Central Hungary	60	80	100	120
Central Transdanubia	24-80	48-120	100-140	140-180
Western Transdanubia	40-60	60-80	80-100	100-120
Southern Transdanubia	60-100	80-160	100-200	120-280
Northern Hungary	20-28	32-40	40-80	40-80
Northern Great Plain	24-100	40-160	80-200	80-200
Southern Great Plain	48-80	56-112	100-140	120-160

Source: Based on the data supplied by Agricultural County Offices for empirical analysis, 2007

Trends in rental fees are determined not only by the location but also **by the quality of the soil**. In general, the rental fee for poor quality land (under 17 GC/ha) is 40-60 euros. For average quality land (20 GC/ha) it is 60-80 euros, and for good quality (25-30 GC/ha) 80-100 euros. For excellent land (above 30GC/ha) 100-120 euros is the annual rent per hectare.

After Accession the **largest rental fee increase was in the traditionally cheap rent region of Northern Hungary and it rose by 40-50%**. The increase was moderate in medium rent regions (Western Transdanubia, Central Hungary, and Southern Great Plain). In the high rent part of Northern Hungary rents increased only slightly. In some counties of Central and Southern Transdanubia (Komárom-Esztergom and Somogy) the rent increase was moderate (10%), while in the other counties the increase was more pronounced (25-50%).

4. Land market

The definition of land market is the sale of land and property accompanied by a change in owners. In countries with a well-entrenched land policy, only a small share of total land is ever on the market. In the majority of the old Member States, the volume of annual land transactions usually does not exceed 1% of total land assets. **Sale of land is also limited** by the fact that land/property is traditionally considered as a means of maintaining and increasing wealth. Change in ownership stemming from inheritance is the most common. The separation of land ownership and land use is increasingly prevalent in agriculture and this phenomenon is linked to leasehold. The land market is linked mainly to local factors of supply and demand.

Land ownership

To meet the demands of a market economy, land privatisation, and particularly **agriculture land** privatisation, was necessary. Nowadays in well-established farming areas¹² 86.9% of the arable land (crop-land), and 83.1% of the total agricultural area is owned by private individuals. Private individuals are less present in other productive areas (72.3%) due to state ownership of forests (Table 6).

Table 6

Structure of well-established farming properties by main owner groups, 2006 (%)

Denomination	Arable land	Agric. Area	Prod. area	Total area	Properties	
					No.	Aver. area, ha
Property of natural persons	86.9	83.1	72.3	66.6	75.3	88.3
Property of economic organizations	13.1	16.9	27.7	33.4	24.3	137.1
state	8.7	11.7	22.9	25.7	7.8	328.6
cooperative	0.7	1.0	1.0	1.4	3.2	44.1
business association	2.8	2.9	2.8	3.7	2.9	125.4
other*	0.9	1.2	1.1	2.7	10.4	25.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

*local governments, societies, churches;

Source: National summaries by the administration districts and by locations (1 January) 2006, Ministry of Agriculture and Rural Development (MARD), Institute of Geodesy, Cartography and Remote Sensing (FÖMI), Budapest, 2006

Two years after Accession **no significant changes were detected in the structure of land ownership**. In fact, the share of arable land owned by private individuals and property concentration seemed to slightly decrease. Arable crop-land owned by private individuals decreased by 0.3 percent to 86.9% (3,936.2 thousand ha). Among other agricultural operations the share controlled by farm companies decreased by only 0.1 percent to 2.8% (127.7 thousand ha), and this was during the last two years up until to 2006. Cooperatives' share of land also decreased by 41.7% to 0.7% (29.5 thousand ha), while the share of state property increased by 0.9 percent point to 8.7% (395.2 thousand ha).

¹² Well-established agricultural and silvicultural use communities.

One sees that cooperative members and farm company owners were the major factors behind changes in land ownership. Land purchases by the state were connected to the life annuity program and the desire to sale land due to the inherent responsibilities that come from working the land. The previously mentioned land area **sizes** in terms of **property ownership titles** as well as other trends are not likely to **change considerably**. In the future private individuals will predominate.

Among types of land ownership, **undivided property ownership**¹³ **should be emphasized**. A particular problem related to this property structure is not only how widely dispersed the locations are but also the establishment of property communities – of an area of 1.5 million ha – leaving the properties in one parcel due to the small sizes of the properties. The property communities utilize these areas by leasing the land. 240 thousand proprietors have asked the State for the right to establish independent properties (in order to make use of it by themselves or to sell it at higher price). There are 82 thousand such parcels with the total affected area of 1.1 million ha (MARD 2006). The areas assigned will lead first to even more widely dispersed land, but later higher land prices may ignite the land market.

Presumably **those benefiting most** from **Hungarian land acquisition** could be agri or food companies which are either partially or completely foreign owned. In fact, these businesses are already active on Hungarian soil.

Despite the prohibition on land purchase **resident legal persons**¹⁴ (with or without legal entity) **can purchase land indirectly** through their private individual members or share holders in accordance with the rules regulating land acquisition by private individuals. The corporations – through the rents paid to their members or shareholders – may finance the land purchase of their shareholders and record it as an expense. Regarding the right to sell, the pre-emption right held by local members, meaning shareholders in terms of the rented areas, ensures the priority. The land purchase/lease rights for legal entities are not guaranteed in every old Member State. Denmark has the strictest regulations as Danish legislation allows only land purchase/lease by resident farmers, the only exception being the land purchase/lease by cooperatives with a member engaged in farming, thus allowing it to have members (among them legal entities) who are not engaged in farming (Erdélyi, 2004).

The prohibition on land acquisition does not apply to those EU farmers who **intend to permanently reside in Hungary as farmers and who have been legally residing in Hungary for at least three years and who have been engaged in farming** (Act XXXVI of 2004). Presently the only other way of directly investing foreign capital in Hungarian agriculture is if the **foreign investor buys shares in a corporation which is using land**.

In agriculture the share of foreign control has largely remained at the same level as prior to Accession. In 2003, according to enterprises performing double-entry bookkeeping, there were 794 organizations, meaning 8.4% of the total agricultural organizations having a degree of **foreign control** (Figure 1). Foreign capital entailed 9.2% of the total share of agriculture capital. In 2005 the share of **foreign controlled agricultural enterprises** decreased by 8.1% compared to 2003. Between 2002 and 2005 the total volume of **foreign capital** in agriculture essentially did not change, while its total share increased by 0.2 percent between 2003 and 2005. The share of foreign capital in agriculture is 98.8 million euros, **accounting for 9.4% of the total capital structure in agriculture**. Among agri enterprises foreign

¹³ Several landowner have property in the same parcel, which are not yet not separated by the ownership ratios.

¹⁴ With the exception of the State of Hungary, local governments and public foundations.

control is the highest (10.8%) among those specialised in crop production and horticulture requiring large areas. In these enterprises, the rate of foreign capital amounts to 13.0%.

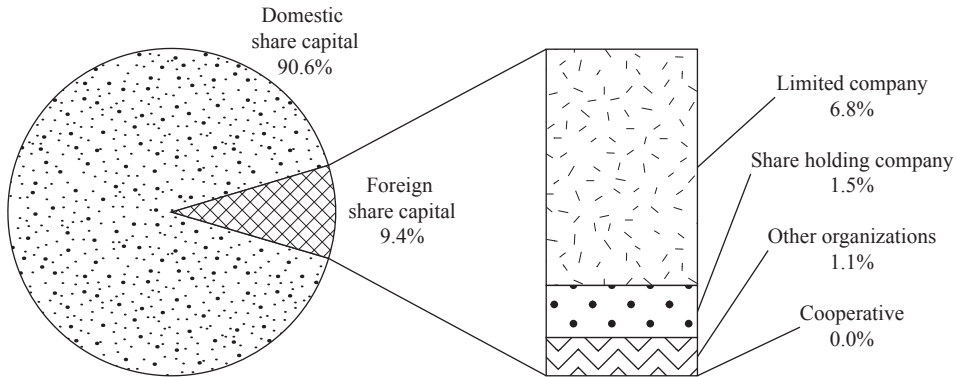


Figure 1: **The ratio of foreign share capital in agriculture, 2005 (%)**

Source: The main data from agricultural and food industrial enterprises doing double entry bookkeeping. 1999-2004, AKI, Budapest, 2006

In the Hungarian food industry, 9.2% of the enterprises have foreign ownership. Almost half (49.2%) of the total share of capital in Hungarian food industry companies have foreign ownership. The number of enterprises with foreign ownership (383) did not change significantly between 2003-2005, while their share among all food industry companies decreased by 1.5 percentage points. However, a significant change is the **34.7% decrease in the share of foreign registered share capital** which has occurred mainly in the following industries: milk processing, beverage, sugar and sweets manufacturing, preserved bakery products, meat processing and the manufacture of tobacco products. However, the amount of foreign registered capital increased significantly in oil processing, in fruit and vegetable processing, and bread and fresh pastry goods manufacturing. Due to changes occurring between 2003 and 2005 the amount of foreign share capital decreased by 290.0 million euros to 545.2 million euros. In 2005, almost 60% of foreign share capital was distributed among four sectors: beverage manufacturing (21.7%), oil processing (16.1%), milk processing (11.0%) and meat processing (10.6%).

Liberalisation of land acquisition could result in additional foreign investment in agriculture and production/processing integration in food processing could be strengthened. This would mainly occur in vegetable and animal oil processing, plus fruit and vegetable processing, due to the concentration of foreign investment in these fields. Therefore, rigidity over land supply could spark a rise in the price of land. This would be especially true if non-farming foreigners were allowed to purchase Hungarian agricultural land. **Foreign acquisition** would primarily **focus on large-scale farms**. However, even prior to Accession foreign investors withdrew dividend profits from Hungary (Rontóné et al., 2005); and this process continued after Accession.

Land transfers

In the year Hungary joined the EU, **total land transfers** (inheritance, purchase, donation and exchange) exceeded 213.3 thousand hectares, meaning **2.8% of the total productive area**. However, the land market remained stable despite the fact that in 2004 **land transfers** increased by 12.2%. In 2006, officially registered land transfers entailed 210.7 thousand hectares (Table 7).

Table 7

Land transfers by the main groups of pre-emption rights

Denomination	Registered productive area (ha)					
	thousand ha			distribution (%)		
	2004	2005	2006	2004	2005	2006
Acquisition with pre-emption right:	91.1	90.5	95.5	42.7	45.2	45.3
Co-ownership, close relatives	34.4	31.6	49.4	16.1	15.8	23.4
Local resident leaseholder, farmer	37.5	33.7	36.9	17.6	16.8	17.5
Settled (EU national) farmer	n.a.	0.4	0.3	-	0.2	0.1
Hungarian State (National Land Fund)	19.2	24.8	8.9	9.0	12.4	4.3
Acquisition without pre-emption right:	122.2	109.8	115.3	57.3	54.8	54.7
Inheritance, purchase, exchange and donation	105.8	96.9	103.8	49.6	48.4	49.3
Other transfer	16.4	12.9	11.5	7.7	6.4	5.4
Total land transfer	213.3	200.2	210.7	100.0	100.0	100.0

Source: Based on land market transfer volume data collection 2006 of the Department of Land and Geo-information of the Ministry of Agriculture and Rural Development (MARD FTF), 2007

Land acquisition is almost evenly distributed among the participant groups. In 2006 almost half of land transfers, meaning **103.7 thousand hectares, were related to inheritance, purchase, exchange and donation**. Purchases through pre-emption rights came to 45.3%, of which transfers between **co-owners or close relatives** entailed **one fourth** of total purchases (23.4%). **Local resident leaseholders and farmers** acquired almost **one fifth** (17.5%) of the total land traded. Since 2004-2005 the National Land Fund's role in relation to buyers has significantly decreased, while land acquired by co-owners and close relatives has increased by **156.3%**! According to official records, land acquisition by **Member State citizens residing in Hungary is negligible**; in 2005 and 2006 it did not exceed **700 hectares**, about **0.2% of total land acquisition**. This amount hardly **threatens land acquisition opportunities for Hungarian farmers**.

The **empirical analysis also uncovered** another pertinent **land market** trend, indicating that **demand for land is almost exclusively restricted to crop-land** while interest in grassland is much lower. However, interest in grassland is increasing in the regions of the Northern Great Plain and Central Hungary. It is also growing in West Hungary and Southern Transdanubia counties (Zala; Bács-Kiskun), and in Northern Hungary in Borsod-Abaúj-Zemplén county. Interest in purchasing forest land is primarily in Western Transdanubia, Zala, and Southern Transdanubia. Forest land is also commercially popular in Northern Hungary, Borsod-Abaúj-Zemplén County, the Northern Great Plain, and in Szabolcs-Szatmár-Bereg County. When considering the entire land market, one sees that the **land market is demand**

driven, and most in demand is land with good quality soil, a favourable location (close to markets) and large parcels. However, there is a slight increase in demand for undivided properties and small areas (under 1 hectare). Demand is also growing for poor quality land and land in unfavourable locations (in particular as a result of the direct payments), but of course in these market segments supply outstrips demand.

Most of the land is purchased by individual farms in order to increase their production. On the other hand, land purchase by private individual **owners from other farm operations engaged in agricultural production is also significant**, of which the objective is to extend the size of these enterprises. Far fewer land purchases are made by **private persons not engaged in agricultural production** who are not residing in the area where the land is located. These purchasers see land as an **investment opportunity**, or as a chance to **increase their assets. In the land market purchases by the National Land Fund are also significant.** Primarily, **owners sell land due to financial problems, but other factors entail difficulties encountered while farming coupled with the obligation to work the land.** Higher prices also prompt owners to sell good quality land. Regardless of whether they reside in the local area, a large percentage of sellers are **not engaged in agricultural production.** Another category of sellers entails producers terminating or decreasing cultivation. Areas under corporate ownership are also sold, but mainly to their own members. Albeit to a smaller extent, the National Land Fund actively sells land in each Hungarian county.

It is difficult to sell undivided jointly owned properties, and they do not constitute a major factor in land sales. The reason for this is the slowness in distributing the land **plus** the greater **transaction costs** involved in the purchase. Another factor is the **obligation tied to existing leases** Initially, the proprietors endeavour to divest themselves of the minor owners. When this happens, the tenant might be the buyer. However, purchasers acquire the land (buy-ins) hoping to buy the whole parcel later.

Land price

In 2005 Kapronczai et al. conducted an analysis on the purchase of farmland which revealed an average price of around 1,200 euros per hectare for land of 20 Golden Crowns between the years 2002 and 2004 (see Figure 2). The **average sale price of arable land varied significantly between regions and even within regions.** The highest prices were in West Hungary, in the regions of Central and West Transdanubia, and in the Northern Great Plain. The lowest prices were generally in East Hungary, in the Southern Great Plain, and also in Northern Hungary and in Southern Transdanubia.

There are no official land price statistics, but based on an analysis performed in Jan.-Feb. 2007 the post-Accession **market price for arable land (crop-land) fluctuates sharply between counties and between regions** (Table 8). Between North-Hungary where land is cheapest and the Northern Great Plain where it is the most expensive, there is **17.5 fold** difference in land prices. Within the various land quality categories the difference in market prices for arable land (crop-land) is much smaller but the difference becomes more marked as quality increases. For poor quality land (under 17 GC/ha) it is 4.2 fold, and for average quality (about 20 GC/ha) 5 fold. For good quality (25-30 GC/ha) 7.5 fold and for excellent quality (above 30 GC/ha) the difference is 8.4 fold. **Arable land (crop-land) prices are highest in the Northern Great Plain and in Southern Transdanubia; prices are also high in the Central and West Transdanubia region, but lower in the Southern Great Plain and Central Hungary.** The lowest land prices are **in the Northern Hungary region.** Using

medium quality Hungarian crop-land as a yardstick, it is possible to determine three land price groups per hectare. In the **top group** (Northern Great Plain, southern Transdanubia) it is **1,400-3,000 euros per hectare**, in **Northern Hungary 600-1,400 euros** and in **other regions the market price fluctuates between 1,000-2,000 euros**.

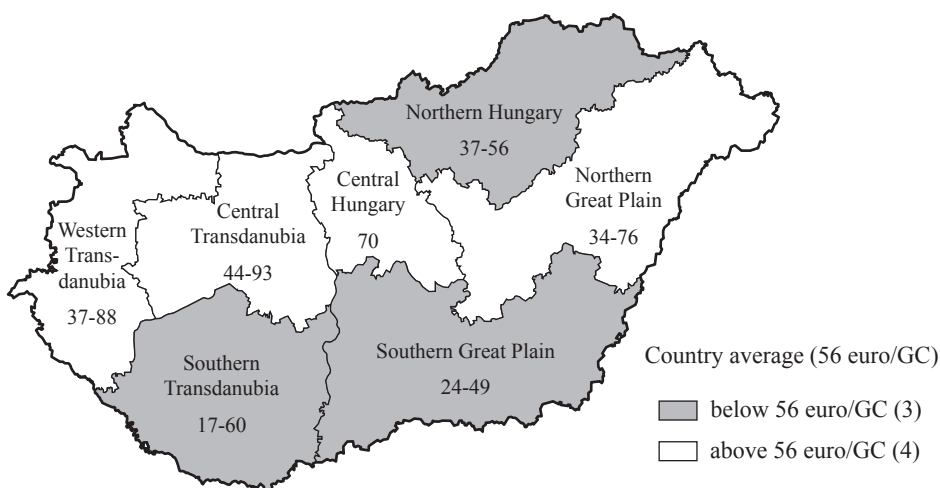


Figure 2: **Price of arable land by regions, 2002-2004 (euro/GC)**

Source: Kapronczai et al. (2005): Characteristics regarding the adaptation by Hungarian agricultural producers AKI, Budapest, p. 24. Calculated on the basis of county averages.

Table 8

Price of arable land by regions and quality of land, January 2007 (euro/ha)

Region	Quality of land			
	Poor	Average	Good	Excellent
Central Hungary	680-1,000	1,200-1,400	2,000-2,200	2,600-3,000
Central Transdanubia	1,000-1,600	1,600-2,400	2,000-3,000	3,200-4,000
Western Transdanubia	600-1,400	1,000-2,000	1,800-2,400	2,000-4,800
Southern Transdanubia	1,000-2,000	1,400-3,000	2,000-4,000	2,400-6,000
Northern Hungary	480-600	600-1,400	800-2,000	1,000-2,400
Northern Great Plain	800-1,400	1,400-3,000	1,600-6,000	2,400-8,400
Southern Great Plain	600-1,200	1,000-1,600	1,600-2,200	2,400-2,800

Source: Based on the data supplied by Agricultural County Offices for empirical analysis, 2007

Between 2005-2006 the **price increase for arable land** (crop-land) was the least (10%) in the regions where prices were previously high, meaning the Northern Great Plain counties. In the Southern Great Plain region prices grew by 15-20% and about 20% in the Southern Transdanubia and Central Hungary regions. An increase of above 20% was recorded in the Central Transdanubia and Western Transdanubia regions, which are close to the old member states. The highest increase – above 30% – was seen in the Northern Hungarian counties, where prices are the lowest in Hungary.

Our empirical analysis showed the average price for Hungarian arable land to be about 1,600 euros, meaning that EU-15 land prices still remain 5-10 times higher than in Hungary. This difference can be largely explained by the the inclusion of high EU-15 subsidies in land prices (capitalisation). However, the demand for land by other sectors also drives prices higher. The proportion of lease payments to the price of arable land has not differed significantly since Accession, and rental fees are about 3.5-4.5% of the Hungarian arable land price.

Direct payments based on area are much lower in Hungary than those paid in the old Member States (Table 9). In fact, rising rental prices mean subsidies based on production which are granted to areas are incorporated into New Member State land prices (Ciaian-Swinnen, 2005.). If EU level subsidies had been paid directly after Accession, land prices and land lease payments would have more rapidly approached EU land prices and rents. This process is also hampered by the significant bargaining power of agricultural producers and the transition to the Single Payment Scheme (SPS) which is part of CAP reform (Kovács, 2006).

Table 9

Planned direct payments (SAPS and national top-up), (euro/ha)

Denomination	Ref. yield*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Hungary	4.73	149.5	161.0	174.3	208.6	238.4	268.2	298.0	298.0	298.0	298.0
EU-15 average	4.77	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5

* Reference yield (t/ha)

Source: AKI calculation based on Council Decision 2004/281/EC

According to Hungarian FADN indicators used to compare Hungarian and EU farms (Keszthelyi, 2007), between 2004 and 2006 the Hungarian gross farm income per hectare of land (EUR 312.7) increased by one fourth. However, at EUR 720.2 the 2004 EU-15 average is still 2.3 times higher than the Hungarian data.

According to Swinnen – Vranken’s 2003 study, increases in area payments to the EU level along with a permanently growing demand for agricultural products will lead to increasing agricultural incomes and increasing demand for land rent and purchase. The GTAP (Global Trade Analysis Project) EU Accession impact analysis model regarding Central and East European countries had predicted a 170% land price increase between 1995 and 2010 if the full amount of area payment were to be paid (Frandsen – Jensen, 2000). However, by 2006 this prediction already held true even though the specified payments were only partially carried out. **In Hungary one can expect a permanent and gradual rental fee and land price increase.**

5. Arguments for and against the transitional measures

Based on a statistical analysis and a review of the pertinent literature, Accession **has not brought about major changes in Hungarian land use and ownership** as the changes which occurred prior to Accession and their impact are still **being felt. Between 2003 and 2006 land prices and land lease payments rapidly increased** by 30-40%, but still occurred **in a balanced and harmonized way**. A permanent increase in land prices is anticipated, but the rate of increase will likely gradually decline.

Arguments for maintaining the transitional measures:

1. **Hungarian land prices are significantly lower than those of the EU-15**, and low land prices and lease payments constitute an important factor in making Hungarian agriculture competitive. **Viable farms** and those farms capable of becoming viable are **not yet strong enough to compete**. A comparison between Hungarian farmers and old Member State farmers indicates that lower area subsidies mean **Hungarian farmers are in a “disadvantageous position.”**
2. **Giving foreigners not engaged in farming the right to purchase land would increase demand for land, leading to higher land prices and lease payments.**
3. **Unlimited land acquisition and rental by legal entities is not allowed in all Member States. Security of supply can be increased through land acquisition by members or shareholders.**
4. **Demand for land** might increase without foreigners acquiring land due to permanent improvement in agricultural profitability and by decreasing land acquisition taxes (Szűcs – Csendes, 2002).
5. **If one could prevent radical and sudden price increases** in rural areas where small-scale farming is common, the rural population’s livelihood would be better ensured and **social problems avoided** (Tóth et al., 2004). Moreover, future generations could continue farming and they would have a greater chance of acquiring land.

Arguments against maintaining transitional measures:

1. **Despite available opportunities, land acquisition by foreigners residing in Hungary is insignificant.** The presence of foreign capital in agriculture could introduce **better technology** and improve efficiency and quality.
2. Limitations on land acquisition hinders foreigners from investing, and thus **capital investments by foreign food industry enterprises** operating in Hungary are also hindered.
3. **Foreign capital** is primarily **interested in purchasing large farms** that provide satisfactory income. **Purchasing small farms** to incorporate them into large holdings is **not lucrative due to the high costs of land transactions.**
4. **Land speculation** can be controlled by procedures which monitor **land** acquisition; thus, profits that don’t lead to agricultural production can be prevented (Tanka, 2006).

Agricultural land is a part of the national wealth, and requires care and attention to guarantee that increases in the price of land primarily strengthen Hungarian agricultural production and the producers. However, an increase in land prices means a growth in **national assets**. Growth in mortgages means the surplus can be spent on developing production and also on land acquisition. **Land acquisition by foreigners could mean the consolidation of the national land market** but also lessen Hungarian farmers’ bargaining power. An increase in land prices and lease payments will hasten competitiveness and production profitability but Hungarian farmers will enjoy fewer opportunities to purchase land. However, **improved profits and maintaining the present transitional measures prohibiting foreigners from acquiring land means Hungarian farmers will have a better opportunity to acquire land for a longer period of time.**

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