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RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE DEPUTY
PRIME MINISTER OF HUNGARY AT 1100 HOURS ON TUESDAY 8 MARCH 1983
AT 10 DOWNING STREET

Present:

Prime Minister

Mr. Marjai

Mr. B.G. Cartledge

Dr. Banyasz

Mr. A.J. Coles

Interpreter

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The Prime Minister said that she would be most interested to hear an account of the situation in Hungary, in particular of the economic problems and the economic policies of the Hungarian Government. We in the West had been glad to help with temporary financial problems.

Mr. Marjai said that he was most grateful for the arrangements made for his visit to Britain and he particularly appreciated his meeting with the Prime Minister. He wished to convey the best regards of the Government of Hungary and of the Hungarian Prime Minister. It was his duty to remind Mrs. Thatcher that she had an outstanding invitation to visit Hungary. Not only the Government but the Hungarian people would welcome such a visit. It was a fact that the Prime Minister was a very popular personality in Hungary.

The Prime Minister said that she was sorry that she had not been able to take up the invitation yet but she would hope to do so one day. A complicating factor at present was the prospect of elections though she did not know when these would take place.

Mr. Marjai said that he believed that the Prime Minister was aware of the broad features of Hungary's present policies. The Government had continued to pursue these even in the present unfavourable world economic and political situation. Hungary

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wished to remain open to the world. It was searching for specifically Hungarian solutions to its problems. With regard to the economy, the reform policy was being carried forward resolutely and consistently. In the coming months work would be completed on the elaboration of a concept which would encompass the Government's ideas for the future. This would be embodied in a public statement.

The Prime Minister asked how current policy differed from previous ones. Clearly, much depended on political factors. She understood that current policy was determined by the specific characteristics of the Hungarian situation. She was very interested in the Hungarian economic experiment and would be grateful for a description of its objectives and the proposed methods of implementation. She took it that the idea was to give people more freedom with respect to their working life. Mr. Marjai said that this was correct. It was difficult to break out from established modes of thinking. One of the fundamental features of current policy was to strengthen the independence of production units. The aim was to promote a greater variety of types of unit. Even now, when Socialist conditions prevailed, the variety was very considerable. The Government did not wish to manage and organise the economy. The intention was to work through economic means. The Prime Minister asked whether this was a reference to economic incentives. Mr. Marjai said that it was. Profit must be the incentive. It was not for the Government to hand out money. The Government did not have money. The Prime Minister commented that these remarks could have been made in one of her own speeches.

Mr. Marjai said that the Government wished to create conditions in which everyone strove for higher profits. Performance should be the determinant of profits. Production units had to work on the basis of the laws of the market. The Prime Minister said that she would be interested to read any speeches that had been made on this matter. Mr. Marjai said there was no concise summary of the policy at present. But as he had said there would probably be a public statement during the course of this year.

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He wished to repeat that the policy had been pursued even in the last two years of world economic crisis. The Government had pursued strongly the de-centralisation of enterprises. It had split up large enterprises which had enjoyed monopolistic conditions and had been created artificially in the earlier period. Strong support was given to medium-size and small enterprises in order to create better conditions for competition. For without competition, the laws of the market could not work. Further steps would be prepared on the assumption that the world economy would begin to improve. The opportunities for domestic competition must be strengthened and the obstacles gradually dissolved. A small country like Hungary needed to be more closely involved in the international division of labour. Hungary was fundamentally export oriented. Without exports, it was unable to develop. But that implied that the possibilities for import competition should be widened. It was vital that Hungary should live up to the standards of competition on both external and internal markets.

The Prime Minister said that she saw some signs of world economic recovery, particularly in the United States. A fall in oil prices would help, provided it was not too sudden. Where did Hungary obtain its oil from?

Mr. Marjai said that he agreed that Hungary's interest was that there should be no sudden change, either upwards or downwards, in oil prices. Nor was it in Hungary's interest that the oil producers should go through an economically difficult period, for the oil producers represented an export market. Most of Hungary's oil was imported from the Soviet Union. This was advantageous in terms of price and was physically simple in the sense that the oil came through pipelines.

The Prime Minister said that we were awaiting the decision of the current meeting of OPEC Ministers in London. We understood that Iran was the obstacle to agreement on a stable price for oil. Mr. Marjai commented that our two countries had a joint interest in oil price stability.

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The Prime Minister asked whether, from his time in Moscow, Mr. Marjai knew Andropov. Mr. Marjai said that he did. If the Prime Minister and Andropov were to meet, they would enjoy their talks. Andropov was intelligent and his range of knowledge was wide. On economic matters, the Prime Minister would probably have the advantage over him. It was possible to have frank and open discussion with him. One great advantage was that he listened to his partners, not just to his own voice. Hungary considered him a good choice for the leadership. It was to be hoped that he would be able to implement the things of which he was capable. But he faced serious international problems and complicated internal economic problems. The Prime Minister asked whether Andropov, given his background, would be able to contribute to the lessening of tension. Mr. Marjai said that it was necessary to recognise that there had grown up in the Soviet people a strong nationalistic feeling and a fear, based on historic experience, of attack from without.

Mr. Marjai said that in conclusion he wished to thank HMG for the understanding it had shown in the past difficult months, particularly over Hungary's request for links with the IMF. For Hungary to be able to continue with its current efforts it needed that support. It was not asking for special but normal treatment. The Prime Minister said that we had been glad to offer constructive help. We recognised what Hungary was trying to do.

The discussion ended at 1135.

A.J.C.

8 March 1983

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file hc Alan
Watters

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10 DOWNING STREET

From the Private Secretary

8 March 1983

Dear Roger,

Visit of the Hungarian Deputy Prime Minister

The Deputy Prime Minister of Hungary called on the Prime Minister this morning. I enclose a record of the discussion.

I am copying this letter and enclosure to John Kerr (H.M. Treasury).

John Kerr

JLH

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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