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VISIT OF THE PRIME MINISTER TO HUNGARY

2 - 4 FEBRUARY 1984

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VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

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## VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

## STEERING BRIEF

INTRODUCTION

1. This visit is important in three ways:-

- it is the first visit by a British Prime Minister to Hungary since the War, and probably the first by the Prime Minister of either country to the other since Hungary separated from Austria in 1918;

- it will be the Prime Minister's first visit to a Warsaw Pact country since she took office, apart from her stopover and meeting with Kosygin at Moscow Airport in 1979;

- it falls at a time of peculiar complexity in East/West relations, with the first INF missiles deployed and operational, the CDE just launched, the Soviet Union rudderless and sulky, and the East Europeans more uneasy than ever at their own impotence: never has East/West dialogue looked more necessary or more full of problems.

2. The task will be to seize this triple opportunity, imaginatively but without exaggeration. Hungary can never be more than a secondary power, even within Europe. Only in economic policy is there conscious deviation from Moscow's line towards decentralisation, individual incentive and market forces. Even here the picture by Western standards is one of low productivity, sloppy management and pervasive inflexibility. In other fields, especially foreign policy, Hungary wears a mask of wall-to-wall conformity with Moscow.



Not surprisingly, 'Anglo-Hungarian relations' has in recent years meant no more than periodic visits at the level of Foreign Minister and below, trade not exceeding £100 million a year in either direction and some cultural contact, mostly between specialists.

3. Yet the Hungarian experiment is much more than it seems: more daring, and more subtle. The long term objective seems to be a society that will be Central rather than Eastern European in character: still no doubt a member of the Warsaw Pact and of CMEA (assuming those institutions survive), still a one-party state, with the press controlled and overt dissent forbidden: but offering its citizens a way of life having more in common with its old partner Austria than with any of its neighbours to the East. In this perspective, the real threat to Hungary's national independence is Russia: a soft market and a useful supplier of raw materials, but politically backward, obtuse and unpredictable; while the West is seen as the source of technology, innovation, artistic quality and ideas.

4. To wear one mask while pursuing the other objective requires all the finesse and cynicism that are the Hungarian trademarks.

5. Even more than other East European countries, Hungary supports and is an active practitioner of East/West dialogue. Lord Carrington (1980) and Sir Geoffrey Howe (September 1983) have visited Budapest. Mr Marjai, a Deputy Prime Minister with economic responsibilities, came to London in March 1983 and called on the Prime Minister. Hungarian contacts with other Western countries, especially the FRG, have been more intensive still. It is significant that the Hungarians feel able to receive the Heads of Government of the three INF basing countries (Britain, Italy and the FRG) within the first six months of 1984, at a time when Moscow is showing its displeasure by curtailing



contacts of this kind.

### Objectives

6. In this situation, the Hungarian objectives for the visit are likely to be:-

- (a) to project Hungary as a significant and economically viable country in its own right, while underlining that it is communist and loyal to its alliances;
- (b) to put across an orthodox Warsaw Pact line on international questions, tempered with genuine Hungarian concern over the state of East/West relations;
- (c) if necessary, to try to pin the blame on NATO for the Soviet walk-out in Geneva and for 'counter-measures' in Eastern Europe; to see whether there is any mileage in criticising the United States;
- (d) to press for continued British support for Hungary's approach to the European Community, and for access to our markets and loan funds;
- (e) in private rather than in the formal sessions to stress that the sort of developments Hungary has in mind are made more difficult at times of East/West tension.

7. British objectives are as follows:-

- (a) to show recognition of what is distinctive in the Hungarian course, and implicitly to encourage its



continuation;

- (b) to convey a political message which will catch the attention of the Hungarians and of their allies to whom they will relay it;
- (c) to contribute positively and significantly to the East/West dialogue;
- (d) to assess how strong are the political and economic strains between the Soviet Union and Eastern Europe;
- (e) to improve the prospects for Anglo-Hungarian trade.

#### TACTICS

8. The Hungarians will be obliged to report on the talks to Moscow and to their other allies. This means that any direct criticism of the Soviet Union will produce a rebuttal for the record, probably at length. Even without such an excuse, they may feel the necessity to expound the Soviet line on the causes of current East/West tension, the wickedness of the Reagan administration etc. The formal meetings will therefore be less valuable than the more private talks, for which every possible opportunity should be seized. Particularly important will be the call on Kadar, whose experience and standing in Eastern Europe are unique and who has known Andropov since 1956. Annex A to this Brief contains points suitable for use in private with Kadar or others, as opportunity may permit. Although the Hungarians will not want to be thought of as message-carriers, the thoughts which the Prime Minister may wish to plant in the Hungarian mind for onward transmission to Moscow are as follows:



- (iii) Hungary and the European Community
- (iv) points from Mr Lazar's statement
- (v) bilateral political and commercial (and cultural) relations

Deputy Prime Minister Marjai

When Mr Marjai calls it would be appropriate to persuade him to open with an account of the Hungarian economy and the prospects for continued economic reform. Topics for discussion would be:

- (i) The Hungarian economic reform
- (ii) Hungary and the European Community
- (iii) Anglo-Hungarian trade
- (iv) Prospects within CMEA

President Losonczi

This will be a short protocol call: bilateral relations and the need to improve East/West dialogue at a difficult time would be appropriate.

Mr Kadar

The meeting will be at Central Committee Headquarters and limited to 3 or 4 a side. Kadar is likely to explain the progress Hungary has made since 1956 and to state his concern about the international situation. He tends to speak for some time before being ready for an exchange of views. With the points for use in private conversation at \_\_\_\_\_



Annex A in mind, the Prime Minister may wish to try to draw him on:

- (i) Hungary's role in Europe and her future aspirations
- (ii) the relationship with the Soviet Union
- (iii) the leadership situation in Moscow
- (iv) the way forward in East/West relations

The effective time for all talks will be halved by interpretation.

#### Invitations

10. In accordance with normal practice, the Prime Minister will wish to invite Mr Lazar to visit Britain. Depending on the impression she forms, the Prime Minister may also wish informally to invite Mr Kadar to visit London. He has been to Bonn and Paris in recent years but at a better time in East/West relations. He is unlikely to accept an invitation for some time. But its issue would send a very clear signal that we want to remain in touch.

#### 11. Summary of Briefs

##### Brief No 1 Steering Brief

Steering Brief with Annexes on points for use in private conversation and an Opening Statement for talks with the Hungarian Prime Minister. Background on Hungary and Personality Notes.





Brief No 2(a) East/West Political Relations

Our aim is to identify and build on areas of common interest and to reduce tension and risks of misunderstandings. UK shares this approach with US and allies in NATO. No illusions that progress will be quick or easy.

Brief No 2(b) East/West Economic Relations

Policy is to conduct East/West trade on the basis of mutual commercial advantage, consistent with our international obligations and security concerns.

Brief No 3 Arms Control and Disarmament

West want early progress on arms control, especially nuclear and new technologies. Concern to see progress also on chemical weapons and conventional forces.

Brief No 4(a) Arab/Israel

Need for new momentum in the peace process. Importance of support for moderate Arabs in their efforts to break the deadlock.

Brief No 4(b) Iran/Iraq

UK wish to see early end to war and to prevent escalation. Support any realistic mediation efforts.

Brief No 5 Central America

Share US concern at threat of externally supported subversion and approve US policy aims. We want a peaceful settlement and, to this end, support the Contadora initiative.

Brief No 6 CSCE/CDE

Stockholm Conference should get down to substantive negotiation of practical measures as soon as possible.

Brief No 7 EC/Hungary

We support proposal for EC/Hungary trade agreement. Many practical difficulties to be overcome but political significance of the initiative most important.

Brief No 8(a) Bilateral Political Relations

Bilateral political relations are good, but scope for development in commercial, economic and cultural fields.

Brief No 8(b) Commercial Relations

Commercial relations are good despite modest level of trade. (UK exports Jan-Nov 1983 £84 m, UK imports £49 m). Some promising major projects for British firms.

Brief No 8(c) Cultural Relations

Official programme runs well but we would like greater freedom for Hungarians to use Embassy library and more direct contact with educational, cultural and scientific institutions.

EASTERN EUROPEAN DEPARTMENT

FOREIGN AND COMMONWEALTH OFFICE

26 JANUARY 1984



BRIEF NO 1 (a)

## HUNGARIAN POLITICAL SITUATION

Kádárism

1. Since 1948, the Hungarian political system has been dominated by the Communist Party (renamed in 1956 as the Hungarian Socialist Workers' Party (HSWP)), described in the Constitution of 1972 as 'the Marxist-Leninist party of the working class ... the leading force in society'. The party maintains control of all aspects of Hungarian life. However since 1959 this control has not been as rigorously enforced as it is in most other countries in Eastern Europe. János Kádár, who was installed as First Secretary of the HSWP by the Soviet Union during the 1956 uprising, has based his internal policies on the principle of national reconciliation under the slogan 'He who is not against us is with us' (a conscious reversal of Mátyás Rákosi's pre-1956 'He who is not with us is against us'). The main - almost obsessive - aims of the Kádár regime have been to achieve legitimacy, to improve the material circumstances of the Hungarian people, and to reach an accommodation with the fact of Soviet occupation and domination.

2. Kádár's policy of reconciliation and 'national alliance' has led to the introduction of less repressive domestic policies, some artistic and cultural freedom, freer contacts with the West, and, in 1968, to the more flexible system of economic management known as the New Economic Mechanism (NEM) (see Brief No 1(d)). It has also produced settled relations with both the Protestant and Catholic churches (though some Catholics - in particular, we believe, junior clergy - consider that the Church is too subservient to the regime and would like to



see it play a more positive role, notably in the social sphere). Pursuance of his policy has meant that despite its monopoly of power, the Party has had to make some concessions. The HSWP has shown itself sensitive to public opinion and has on occasion altered or delayed policy implementation when it expected strong public opposition, for example in the announcement of price rises. The HSWP also takes care to prepare the way for policies which are likely to be unpopular and to explain the need for them. As a result, the implementation of unpalatable policies is generally smoother in Hungary than in other East European countries.

#### The Soviet Role

3. One of the bases of Kádár's success is the recognition, by both leadership and people, of the inevitability of the Soviet armed presence (some 60,000 Soviet troops have been 'temporarily stationed' in Hungary since 1948). Thus, Kádár remains aware of the need to avoid annoying or embarrassing the Soviet Union. In return for this reliability, he has been permitted a considerable degree of latitude on internal affairs. One of the purposes of Kádár's official visit to the Soviet Union in July 1983 was evidently to explain to Andropov Hungary's divergent economic policies and to assess the attitude of the Soviet leader towards possible future reform measures in Hungary. He appears to have obtained Andropov's tacit approval of the course Hungary is currently pursuing. Since then he has also visited Warsaw, Prague and East Berlin where part of his purpose may also have been to reassure his Warsaw Pact allies that, whatever references they may read in the Western media about "creeping capitalism" in Hungary, there is no incompatibility between the Hungarian reform and its socialist commitment.



### The "Opposition"

4. There is little organised opposition in Hungary. A small number of dissidents exist and there is some circulation of samizdat publications. In December 1982 the authorities closed down the only samizdat bookshop and seized the duplicating equipment. There were also other indications of a clamp down on the dissidents, including the beating up of one of them in September 1983 and his subsequent trial and sentencing in December. The motives for the authorities' actions are unknown but it is possible that they were reacting to criticism from other Warsaw Pact countries of the relatively liberal atmosphere in Hungary. An unofficial peace movement with a mainly young membership formed itself and appeared to be growing in influence to the point where the authorities felt the need to act against it in July 1983 with the result that it disbanded itself (though a few members still meet in private). The authorities have as a result put more steam behind the official peace movement which it supports, arguing that peace is an official objective and does not need unofficial and potentially anti-government organisations.

### Economic Recession and Economic Reform

5. The Hungarian leadership is now facing particularly difficult times as a result of the world economic recession and Hungary's large foreign debt burden. Living standards, which rose steadily during the 70s, have stagnated and may even be beginning to fall for some people. There is concern as to the possible effects of this on internal stability. The domestic supply situation remains good but foreign travel, a safety valve of great psychological and symbolic importance for Hungarians, has fallen significantly over the past two years. Many Hungarians will be less comfortable this



year, but the incidence of actual hardship is unlikely to increase significantly; savings and "second economy" activity will still provide a cushion for many. The real problem will lie in the fact that those features of the internal situation - particularly low infrastructure investment and social expenditure, coupled with widening income differentials - which were just tolerable during a period of rising living standards and expectation, will become much less so during a period of downturn.

6. There is a danger that conservative opponents of the reform, eg middle-ranking local party members and trade unionists, may try to use the current period to arrest its progress. There have been some signs of this. The resolution agreed by the enlarged meeting of the Central Committee (mid-term congress) in April 1983 contained a number of notably conservative references. The authorities have for some months been taking a harder line towards those too openly critical of the regime. Party officials have emphasised the need for "greater discipline" in the media. Meanwhile the Party's formidable public relations machinery is endeavouring to reconcile the population to the necessity for further belt-tightening and to the inevitability of greater inequalities of income if the economic reform is to succeed. But the fact remains that if Hungary cannot, by the end of 1984 (which will be a particularly difficult year anyway because of a bunching of \$1.5 billion of debt falling due for repayment) show clear signs of success in the battle for solvency, the future of the reform - and of the reformers - will inevitably be called into question.

#### Political Reform

7. Despite this, the reformers within the Party seem determined to press ahead. The qualified support for the



pursuance of the reform given at the April meeting of the Central Committee was reinforced at the Central Committee's July session. In December Parliament endorsed plans to reform the electoral system, eg it will be legally obligatory to have multiple candidatures in every constituency. The practical effect of this will be limited and Party control will not be weakened - there is no intention that candidates should be allowed to run on an "anti-socialist" platform. As a symbolic step, however, the introduction of (obligatory) multiple candidatures has importance.

8. The leadership are keen that current tensions in East/West relations should not affect Hungary's internal policies, but they have been placed in a potentially vulnerable position vis-a-vis their Warsaw Pact allies. They will far more willingly make concessions to orthodoxy in their foreign and cultural policy than in the way they run their economy.

#### The Succession to Kádár

9. Kádár's skill in securing what is considered in Hungary as the best deal under the circumstances, the simplicity of his style of leadership and his preference for persuasion rather than coercion have made him a genuinely popular figure. His betrayal of the 1956 revolution is forgotten or forgiven. But he is now 71 and though he still appears to be mentally and physically fit, there are signs that he may be ageing and perhaps losing his touch. There is no obvious successor; Kádár has avoided nominating or grooming one. It is likely that Kádár's successor will not deviate radically from the path of "Kádárism". But he will have to grapple with the problems and contradictions which Kádárism has brought or has failed to solve - disillusionment among young people, even with the relatively relaxed internal

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regime, inadequate housing and social facilities, growing differentials between the rich and poor and ideological contradictions. The tensions which these problems produce do not pose an immediate challenge to the regime but they may in time prove difficult for the Party to handle.

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## A HISTORY OF HUNGARY

### Who Are the Hungarians?

1. The Hungarians are of mixed ethnic origin, descended from a group of tribes whose most permanent home in ancient times was in what is now the European part of the Soviet Union, below the Volga bend on the Western side of Urals. Linguistic evidence suggests that they are relations - now very distant - of the Finns and Estonians from whom they separated in prehistoric times. The (modern) Hungarian story runs thus: the Finno-Ugrian people came to a signpost on their travels which said "Hungary". Those who could read turned left for the Carpathian Basin, the others turned right for Helsinki. (The Finns tell this joke the other way round).

### Early History

2. Under pressure from other fiercer tribes, the Magyars, by now united into one group, moved into the Carpathian Basin in 896, conquering the Slav and Turkish people already in the region. Some of these fled, others remained and intermingled with the Hungarians. For 60 years, their surprise attacks into the heart of Central and Western Europe (they crossed the Alps and Pyrenees) spread fear among their opponents. Otto I the Holy Roman Emperor who had previously used them as allies against others, turned on the Hungarians and inflicted a crushing defeat on them at the Battle of Augsburg in 955, from which only 7 blinded men were sent back to Hungary. Their rulers, taking stock of their new situation, decided to accept Christianity and receive a crown from a Catholic pope. They were formed into a Christian kingdom (in name at least) under St Stephen on Christmas Day in the year 1000.

### Hungary's Renaissance and the Turkish Occupation

3. Their conversion transformed them eventually from lawless marauders into members of the comity of nations. They survived the Tartar invasion of the 13th century which left the country in ruins. When, a year after their arrival, the Tartars withdrew just as suddenly as they had come, "there was nothing to be found back in our land, except the bones and skulls of those murdered and the destroyed walls of our cities, still red from the blood so freely shed".

4. By the end of the 15th century, Hungary's place in the pecking order in Europe was about the same as that of England. They stood just within the confines of Catholic Europe with a Renaissance monarch, Mathias Corvinus (1440-1490). After Mathias' death decline started with a peasant rebellion, put down in 1514. The leader of the rebellion, George Dozza was burned alive on a white hot throne and his lieutenants forced to eat his charred flesh. The Turks overran the country after the Battle of Mohács in 1526, taking the capital Buda in 1541. Hungary was divided into 3, the centre



including the capital under direct Turkish rule, the North (now Slovakia) and West under the Habsburgs while Eastern Hungary and Transylvania remained under the control of Hungarian princes who were obliged to accept Turkish suzerainty. Thus the Hungarian court and Hungarian culture survived in this period only in these Eastern areas. Much of the rest was devastated and depopulated by constant fighting between Turks and Habsburgs, and between Habsburgs and the now strongly Protestant Hungarians in the West. In central Hungary, many, especially children were enslaved and sent out of Hungary to the East.

5. At the end of the 17th century, after the victory over the Turks at Vienna the Habsburgs conquered all of Hungary. The liberation of the capital Buda was not an entirely happy event for the native population. Liberations in Hungary seem to have done more damage than the oppression they sought to destroy.

6. The first rebellion against them was led by Prince Francis Rákóczi early in the 18th century. The French supported this rebellion at the beginning, but later changed sides. English public opinion was sympathetic to Rákóczi but Britain was an ally of the Habsburgs in the period of the war of the Spanish succession.

#### National Revival and the 1848 Revolution

7. Prompted by the French revolution as much as by the spirit of the enlightenment a national revival began in the last decades of the 18th century. Under pressure to adopt German as the Universal Language, the Hungarians began to turn again to their own language, Magyar, which had by this time been reduced to a language of serfs. This led to a linguistic nationalism and the seeds of later problems with the non-Magyar peoples of the lands under the Hungarian crown were sown at this time.

8. Pressure for reform in Hungary was led by Count Szechenyi the "greatest of Hungarians" who attempted single-handedly to liberalise and modernise his country. Kossuth went even further: he demanded national democracy, industrialisation, the end of feudalism, equal taxation and the inclusion of all in the body of the nation. These demands became the basis for Hungary's major struggle for independence in 1848 and 1849. War developed between Vienna and Budapest and in April 1849 Kossuth formally denounced the Habsburg dynasty and declared Hungary a republic. In June 1849, appealing for support from outside Hungary he said "the freedom of Europe will be determined on Hungarian soil". The Hungarian forces defeated the Imperial Army in a number of battles, but were finally crushed when the 18 year old Emperor Franz-Josef called in Russian aid in accordance with the terms of the treaty of the "Holy Alliance".

9. The rebellion was brutally suppressed. A bloodbath ensued: 13 of Hungary's generals were hanged, thousands were imprisoned, Kossuth went into exile and Szechenyi ended his own life after years in an insane asylum. British public opinion had been outraged by the events in Hungary, but British policy had supported the Habsburgs.



### The Compromise Era

10. Eventually, difficulties in other parts of the empire as well as in Hungary, led the Austrians to work out the so-called "Compromise" in 1867, establishing the dual Austrian-Hungarian monarchy which lasted for over 50 years. Kossuth protested at the terms of this agreement which contained none of the social reforms demanded in 1848 and gave the more extreme Hungarians the opportunity to pursue a harsh nationality policy. In a letter written from exile, he predicted disaster for Hungary as a result.

### The Two World Wars

11. With faultless consistency, Hungary has always chosen or been obliged to take the wrong side in war. They gave full support to the 1914-18 war effort, although they had little to gain from it. When collapse came it was total. With 2 million Hungarian prisoners of war outside Hungary, the country could not survive. The Austro-Hungarian monarchy fell apart and Hungary's independence was declared in October 1918. Under the Treaty of Trianon in 1920 Hungary lost 2/3rds of her former territory and 3/5ths (over 10.6 million) of her population. The majority were Slovaks, Romanians and Serbs, but they also included over 3 million Hungarians. Hungary's foreign policy between the wars was dominated by the desire to regain the "lost territories". The Hungarians turned eventually to Germany for redress and under the Vienna awards of 1938 and 1940 regained some territory from Czechoslovakia and Romania and later also from Yugoslavia. These areas were lost again by the Peace Treaty signed in Paris in 1947.

12. In 1919 a "Republic of Councils" (a Soviet-style republic) was set up under the leadership of Bela Kun who had returned from exile in the Soviet Union. It lasted only 5 months. After intervention by the Romanians the "Red Terror" perpetrated by Kun was followed by an even more ferocious "White Terror" under Admiral Horthy. Hungary, technically still a kingdom, then settled down under Horthy as Regent for nearly a quarter of a century. Under German pressure which increased after the Anschluss and Munich, Hungary moved gradually towards Fascism. The pro-British sympathies of the Prime Minister, Teleki however kept Hungary comparatively free of Axis domination until April 1941 when he committed suicide on learning that it had been agreed, in violation of the Hungarian-Yugoslav Friendship Treaty, to let German troops go through Hungary to attack Yugoslavia. Hungary declared war on the Soviet Union in June 1941 and on the United States in December. Britain declared war on Hungary in December 1941.

13. German troops occupied the country in March 1944. In October 1944 Horthy tried to extricate Hungary from the war but was forced to resign and taken to Germany. The Germans put the Hungarian Nazi Party the "Arrow Cross" in power. They began a reign of terror in Hungary in which 100,000 Jews were murdered. Soviet troops were by now already in Hungary and Budapest fell after a 3 month siege in February in 1945. The capital was reduced to rubble, destroyed by Allied raids, house to house fighting and destruction by the Germans /who



who blew up every bridge over the Danube.

### The Communist Takeover and 1956

14. The Soviet troops were followed by Soviet political experts, accompanied by Hungarian communists living in exile in the Soviet Union, among them Rákosi and Imre Nagy. The communists had little popular appeal, but by the use of "salami" tactics on the other political parties, communist control was complete by the end of 1948. In 1949 parliament was dissolved and in the elections that followed, the Government's list received a majority of 95%. There were no opposition candidates.

15. Nationalisation of nearly all branches of industry was swiftly followed by the collectivisation of agriculture, enforced with much brutality. Living standards were drastically reduced as a result of the industrialisation programme. The power of the trade unions and the churches was broken. All those considered hostile were eliminated by execution, imprisonment or enforced destitution.

Among the infamous trials of this period were those of Cardinal Mindszenty and Laszlo Rajk, the Foreign Minister. Hundreds of thousands were arrested as enemies of the state; thousands were murdered or sent to concentration camps on false charges. Spitting on the pavement could be construed as an act against the state.

16. Stalin's death and Khrushchev's subsequent denunciation of him eventually brought about a crisis in Hungary which led to revolution. Unwilling to resign, Rákosi made the strain more intense with half measures in an attempt to retain power. Ironically many of the worst features of the period from 1945-1953 had been modified or removed by the time the revolution took place in 1956.

17. The uprising began on 23 October 1956 with a huge demonstration of sympathy for Poland by unarmed students. Street-fighting broke out and lasted a week. The Soviet army withdrew and it seemed that the Hungarians had won the day. Nagy who was made Prime Minister on 24 October, eventually succeeded in forming a coalition government a week later. Political prisoners were released and a democratic party programme proclaimed. On 1 November Nagy declared Hungary's neutrality, withdrew from the Warsaw Pact and appealed to the United Nations to support his policy. On 4 November Soviet troops returned to Budapest and after 3 days of bloody fighting, the Hungarians defending Budapest had to lay down their arms. By December all fighting had ceased but a nationwide general strike lasted until the end of the year. Kádár meanwhile had left Budapest and set up a rival government with Soviet backing. Nagy was kidnapped by Soviet officials while under a guarantee of safe conduct and taken to Romania. He was executed in June 1958 after a secret trial.

18. The unofficial figure for deaths in street-fighting in Budapest is over 20,000. The great majority of those involved were young. The United Nations estimated that at least 16,000 young people were taken from the streets and from houses and deported to the Soviet Union. 2,000 people were executed and 15,000 were still imprisoned /in



in connection with the uprising in 1958. In addition to the large number of casualties, between 150,000 and 200,000 fled Hungary to the West.

### The Kadar Era

19. Kádár's conduct in 1956 is not easy to explain. He must have assumed that, given Nagy's declaration of neutrality, the Soviet Union would not accept the implied realignment of Hungary and would be bound to invade. On that view, Hungary's best chance of survival lay in making the best accommodation possible with the Soviet Union.

20. Kádár was now universally reviled as a turncoat and traitor. He had in any case to proceed cautiously. It took some while to efface the physical traces of the Uprising. It took still longer to effect even a modest improvement in living standards and to create, externally as well as internally relaxation in the atmosphere. It was not till 1961 that Kádár instituted a tactical reversal of Rákosi's policy - a platform of national reconciliation under the slogan "he who is not against us is with us". Non-communists provided they co-operated with the party, were to be allowed to hold important positions. Class discrimination was dropped in higher education, restrictions on travel to and from the West were eased, party control on culture was relaxed and in March 1963 there was an amnesty affecting political prisoners.

21. Signs of economic difficulties accumulated. At the end of 1965 the need for radical economic reform was admitted and in January 1968 the "New Economic Mechanism" was introduced, allowing limited operation of market forces and a degree of decentralisation in the economy. Political reforms have been restricted to change in the electoral law and official encouragement of participation by the public in the country's affairs through the local councils, trade unions and National Assembly.

10 January 1984

Research Department  
Foreign and Commonwealth Office



Brief No 1 (b)

## HUNGARIAN FOREIGN POLICY

Soviet Influence

1. Hungarian foreign policy is closely coordinated with that of the Soviet Union. Hungarian pronouncements on all foreign policy issues where there is no direct Hungarian interest at stake - the Middle East, Africa, Grenada, China - slavishly follow the Soviet line. Occasionally on a major issue closer to home Hungarian public statements contain nuances reflecting Hungary's different priorities. On INF, for example, they began at one point to lay more stress than Moscow on the need to maintain East/West contact despite the dangerous situation created by NATO deployment and generally attempted to put a calmer interpretation on the possible consequences for Hungary (eg stress was laid on the unlikelihood of nuclear weapons being placed on Hungarian soil, and on Hungary's inability to face any extra financial burdens). But there are signs that these divergences may have led to a Soviet rap over the knuckles which soon re-established orthodoxy. Thus, the Soviet walk-outs from Geneva and Vienna talks and the Warsaw Pact planned counter-measures now receive vigorous support from the Hungarians, who also refer frequently to the virtues of the Prague Declaration of January 1983.

2. The Hungarians sometimes maintain some distance from the rest of the Warsaw Pact by being one of the last Eastern European countries to comment on foreign policy questions, and Soviet pressure may be necessary before Hungary will commit herself. (An example of this was the Falklands crisis, on which Hungarian reporting was generally factual and balanced, with little independent Hungarian comment. Privately, many Hungarians expressed support for Britain's action). Once a commitment has



been made, official pronouncements are strictly in line with those of the Soviet Union. In private, Hungarians reveal their doubts and fears, especially about "Marxist adventurism" and Soviet paranoia, their damaging effect on détente, and possible consequent restriction of Hungary's own freedom of manoeuvre.

#### Economic Foreign Policy

3. Hungary has shown, however, a real will to pursue policies which would not normally enjoy Soviet approval in areas where the foreign policy consequences of their economic policy are inescapable. Their liquidity problems in 1982 made the IMF an obvious place to turn to in order to restore Western banking confidence, even at the risk of incurring Soviet displeasure at this Westward lurch. The current attempt to come to an agreement with the EC, a vitally important market for Hungarian exports, comes in the same category. It is when asked how the Soviet Union reacted to these potentially dangerous unorthodoxies that Hungarians argue, with some justification in this limited context, that they have an independent foreign policy and do not need Soviet permission.

#### Relations with Western Europe

4. Hungarian spokesmen have said that their own foreign policy should mirror the differentiated approach adopted by the West towards the Soviet Union and the countries of Eastern Europe, and that relations between a socialist country and capitalist countries need not always exactly reflect the state of Soviet-American relations. Provided differentiated Western treatment does not go too far, it suits Hungary well, eg to be treated differently from Poland. And Hungary's own short-term economic difficulties have made it imperative for links with the



West and the markets of the developing world to be expanded and maintained. Although Hungarian policy of gaining as much as possible from detente, in pursuit mainly of economic and trade interest, goes back to 1975, the last two years have seen an unusually active series of visits abroad by Hungarian Ministers responsible for economic and foreign affairs, in particular to Western Europe, the Far East and Latin America. The importance the Hungarians attach to the maintenance of a dialogue with the West has been demonstrated over the last 18 months by the number of high-level visits. To mention Heads of Government alone, in May 1982 Kádár paid his second visit in five years to the FRG; in July 1982 President Mitterrand visited Budapest; 1983 saw the French Prime Minister (in July) and Vice President Bush (in September) in Budapest. The Prime Ministers of the UK and of Italy and the Federal German Chancellor will all be visiting Hungary during the first half of 1984. There were signs that the Hungarians were embarrassed by the possible proximity of the visits by leaders of INF stationing states early in the year and sought to spread them out. Mr Craxi will be visiting Budapest in March or April and Chancellor Kohl in June. There have been numerous visits in both directions at Foreign Minister level, including Sir Geoffrey Howe in September 1983.

#### Relations with the US

5. US/Hungarian relations significantly improved after the return of St Stephen's Crown in 1978 and the conclusion of an annually renewable most favoured nation trade agreement. They reached something of a high point with Mr Bush's visit, only to nose dive - at least in terms of public consumption - after Bush's Vienna speech which in Hungarian eyes moved badly from the acceptable policy of "differentiation" to the unacceptable one of "division" between Warsaw Pact countries. The US/Hungary





relationship is now ambivalent; the Hungarians see the advantage of being treated as favoured communists, but go out of their way to deny any suggestion that they deserve this treatment for reasons of either capitalist tendencies or disloyalty to the Warsaw Pact. They are vigorously anti-American in their propaganda, but privately helpful and welcoming to senior American visitors and diplomats who may be useful in trade and financial terms. They feel they are carefully watched in this relationship by their Warsaw Pact partners.

#### Third World

6. Hungary has also devoted considerable effort to a number of Third World areas, including Latin America, Africa and the Middle East (which has become a very important market for Hungary). Publicly, Hungary endorsed the Soviet attitude towards less-developed countries. There are, however, signs that Hungary may be adopting a more sophisticated approach to the problem and reconsidering where the real interests of the socialist countries lie.

#### Andropov

7. Andropov's succession was generally welcomed in Hungary. He is thought to be knowledgeable about the country and to be a supporter of Hungary's economic reform. One of the objects of Kádár's visit to the Soviet Union in July 1983 was to win endorsement of current Hungarian economic policy and to reassure the Russians that Hungary is still a loyal communist state. The current uncertainties surrounding the Soviet leadership cause considerable anxiety in Budapest.

RJLAAJ

Brief No 1(c)

## HUNGARIAN ECONOMIC SITUATION

1. The Hungarian economy is in difficulty. It faces problems common to other East European countries; debt, low productivity, expensive energy and poor quality exports. In the 1970s Hungary borrowed heavily to develop its industry and expand its exports and economic relations with the West. Living standards rose quite dramatically. But world recession, an adverse change in the terms of trade and high interest rates have forced Hungary to introduce unpopular austerity measures and to slow down the economic reform.

2. Hungary lacks most industrial raw material and relies heavily on manufacturing and agriculture for its economic output. The industrial sector (heavy engineering, chemicals and food processing) produces 40% of GDP and agriculture 20%. Exports, comprising 40% of total output, are divided evenly between CMEA and the outside world. Hungary is therefore heavily dependent on foreign trade.

3. The private sector contributes about 20% of GDP mostly in agriculture, small scale manufacturing and services. It is a controversial sector ideologically. But it provides many people with a second income and the level of goods and services they expect. Some official encouragement is now being given to small private businesses. The "black" or second economy is accepted as an essential but uncomfortable (and not yet taxed) part of the system.

4. Hungary is the most market-orientated country in the CMEA. There has been a determined effort to decentralise, to respond to consumer demand and to reduce subsidies. This had led to a progressive alignment of domestic prices with world prices, in the interests of international



competitiveness, and an active exchange rate policy. Hungary joined the IMF in 1982.

5. As a result of balance of payments pressures in Eastern Europe generally after 1980, Hungary became vulnerable to creditors' loss of confidence. A liquidity crisis early in 1982 was overcome only at the expense of some recentralisation, import restrictions and painful belt-tightening. The Government's immediate objectives are to preserve international solvency and to protect living standards. The pressures are expected to ease slightly in 1984. But living standards will remain static, investment will be below planned levels and the scope for economic experimentation and reform will be limited.

6. These features are likely to continue during 1984-87 while debt service obligations remain high. Hungary will continue to depend heavily on exports, especially to the West (hence the attempts to secure a reduction in EC import restrictions, particularly on agricultural goods and manufactured exports). Hungary must also rely on creditors to roll over some maturing debts. Total external debt in September 1983 was US\$8.9 billion, \$7.4 billion in convertible currency.

7. The Hungarians recognise that we helped at the worst stage in the 1982 crisis. The UK made a significant contribution to special loans from Western central banks and this prompted renewed commercial bank lending.

BOBAAG

## REFORM IN HUNGARY

1. "The Reform" in Hungary was first introduced in 1968. It was known as the "New Economic Mechanism" (NEM). It comprised a package of measures designed to increase productivity, improve efficiency, especially foreign trade performance, and make the economy more flexible. It sought to shift the emphasis in economic management from administrative directives to market forces. Central administrative specification of material inputs and production and sales programmes were abandoned. One-year operational plans were replaced by five-year plans which established the main lines of economic development. The allocation of investment resource was partially decentralised. Wages and prices were liberalised - up to a point. Domestic prices were linked to world market prices. Gradually it has led Hungary away from its centralised Stalinist system of economic management to one which gives a degree of independence and responsibility to individual managers and workers.

2. These ambitious objectives ran into a number of difficulties and there have been long periods when progress came to a complete halt. 1968, the year in which the Soviet Union showed in the Czechoslovak context what it was prepared to do to "reform" that got out of hand, was hardly the most auspicious year in which to start. Within Hungary itself, the pre-1968 administrative structure contained habits and individuals who found these innovative theories hard to swallow. And Hungary's CMEA trading partners, with whom her closest economic links remained, were not about to make any comparable changes. The first oil price shock brought back to the surface more conservative instincts and made it easy for opponents of reform to portray it as too risky for such economically dangerous times. This led to a period of recentralisation in the seventies which gradually undermined many of the principles of the reform, though its



basic element - the abolition of centrally directed production - survived.

3. In 1980, however, the pro-reform elements in the HSWP again seized the initiative and introduced a series of new measures designed to restore and strengthen some of the original concepts of the by now weakened reform. Since then, slow but steady progress has been made. Inefficient large enterprises have been broken up. Legislation allowing various kinds of flexible, small enterprises was introduced in 1982, and these are now burgeoning. Substantial new measures affecting prices, wages and investment are planned for 1984/85. All this has produced an environment in which certain individuals and groups have been able substantially to increase their standard of living. People in the country can combine their primary job on the state farm or co-operative with financially more rewarding work on their own private plot. In the towns, the enterprising can get lucrative jobs in the expanding services sector. However, by no means all the population have benefited from the reform. The bulk of the population still work in traditional "socialist" state industry, for low wages, augmenting their income if they can by unofficial spare time work. Moreover, the emergence of new, more flexible enterprisal forms based on individual initiative and financial incentive has, in places, highlighted the shortcomings and basic inefficiency of traditional "socialist" state industry.

4. As the reform gained new impetus in the 1980s, the Hungarian leadership became increasingly aware of the need to have some kind of parallel political reform to go with economic decentralisation. Changes to the electoral system are being prepared which will make it compulsory for at least two candidates to stand in each constituency at parliamentary and local elections. These changes will not affect the basic power structure: the HSWP will retain its



monopoly of power. Their impact will be greater at local level than in Parliament which - despite recent calls for a strengthening of its powers - remains more or less a rubber-stamp of decisions taken elsewhere. Nonetheless, these cautious moves towards a pluralism of views, however circumscribed, do reflect a genuine feeling, attributable at least in part to the progress of the economic reform, that people should be given a greater say not only in strictly economic decisions but in other spheres of life as well.

5. The Hungarians are extremely sensitive to what they consider to be misrepresentations, especially in the Western media, of what the reform is trying to achieve. They hotly deny that it represents any form of "creeping capitalism", stressing that the two basic pillars of a socialist state (the socialist ownership of the means of production and the one-party state) remain intact.



BRIEF 1(e)

PERSONALITY NOTES ON:

BAJNOK Zsolt

BANYASZ Rezso

KADAR Janos

LAZAR Gyorgy

LOSONCZI Pal

MARJAI Joszef

TIMAR Mátyás

VARKONYI Péter

VERESS Peter



ZSOLT BAJNOK (BOY-NOK) .

State Secretary, Head of the Information Office of the Council of Ministers.

He presided at the Press Conference given by Vice President Bush in Budapest in September 1983.

Born 1932, he took his secondary education in the Budapest Reformatus (Calvinist) Secondary School and then graduated as a teacher. In 1954 he began a career as a journalist and until 1979 he worked in the various departments of the Hungarian News Agency (MTI). In 1979 he transferred to the governmental information office and became its head in 1980.

He is not known to speak other languages than Hungarian. At one stage he was a speed-writing champion.



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DR REZSŐ BÁNYÁSZ (BARN-YARS)

Hungarian Ambassador in London

Born 1931

Graduated from Budapest University Faculty of Law in 1954: became Foreign Editor of "Magyar Ifjusag" and then "Népszava" until he joined the MFA in 1961, working in the Press Department. Press Attache in Stockholm 1962-68, then Deputy Head and later Head of Press Department, MFA, 1968-72. Personally chosen by the Foreign Minister to be deputy Permanent Representative of Hungary to the United Nations 1972-76. Secretary of the Committee for European Security and Co-operation 1976-78. Deputy Head of the Hungarian Delegation at the Belgrade Conference. Head of Press Department, MFA from March 1978 until July 1981.

Married with two children. His wife speaks English; he speaks English, German and Swedish. A pleasant and helpful man, an active Head of Department and proving to be an energetic and constructive Ambassador.

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JÁNOS KÁDÁR (KAA-DAA-R)

First Secretary of the Central Committee of the Hungarian Socialist Workers' Party. Member of the Political Committee: Member of the Presidential Council: Member of the National Assembly.

Born 1912. Apprenticed as a toolmaker and imprisoned several times for Communist activities. In 1942 he became a member of the Central Committee. Arrested by the Germans in 1944, but escaped. In 1945 he organized the Budapest Party and became its Deputy First Secretary. In 1948 he was elected to the Politburo and subsequently became Minister of the Interior. In this capacity he was responsible for the trial of Mindszenty and the trial and execution of his close friend, Foreign Minister Rajk. In 1950 he gave up his Ministerial post to concentrate on Party work but in April 1951 he was arrested, and charged with espionage, treason and Titoism. After being brutally treated in prison, he was released in 1954 and although not completely rehabilitated filled various minor Party posts.

After the fall of Rakosi in July 1956, Kádár was re-elected to the Politburo and gave his support to the Nagy Government. At first he appeared to support the Hungarian Revolution. He is reported to have at first defied the Russians, at one point threatening to fight their tanks with his bare hands, but then broke with Nagy, apparently over the question of Hungarian neutrality and withdrawal from the Warsaw Pact, and fled to the Soviet Embassy. Soon after he set up a Soviet-backed Government, at first on Soviet territory.

By early 1957 he was indisputably head of the new regime as First Secretary, and Prime Minister and universally hated and reviled by the population as a traitor. By 1958, when



he resigned the Premiership, he had been responsible for the brutal liquidation or suppression of those who had been prominent in the Revolution (including many young people) although it is not clear what his role was in the subsequent execution of Nagy. A visit by Khrushchev in April 1958 confirmed his position. He resumed the post of Prime Minister from 1961 to 1964. In 1972 he presided over a compromise between the reformist and conservative groups in the Party. There are frequent rumours that he wishes to retire, but the power struggle over the succession and popular pressure have prevented him from standing down. In September 1974 he led a high level Party and Government delegation to Moscow. In July 1975 he met the Foreign Secretary, Mr James Callaghan, and in December 1976 he made a highly successful visit to Austria. In 1977 he made further successful and well-publicised visits to West Germany, Italy (and the Vatican). He visited France in 1978 and revisited West Germany in 1982. He received Lord Carrington in 1980 and Sir Geoffrey Howe in September 1983. In July 1983, he made an important visit to Moscow, where Mr Andropov (who had been Ambassador for the USSR to Hungary in 1955-57 and was instrumental in installing Kádár in his present position after the 1956 Revolution) appears to have given his endorsement of current Hungarian policies. He also visited Warsaw, Prague and East Berlin in quick succession in the autumn/winter of 1983 - an unusually taxing programme for a man of his age.

Kadar is a formidable man who has been in charge of Hungary for over twentyfive years. Memories of his lurid past and the crimes and betrayals of the fifties have, in Hungary, been overlaid by the conciliatory policies of the last 20 years. He is now generally identified with the gradual improvement of conditions for Hungarians and respected for his ability to handle the Russians. He is a good orator but his usual style is quiet and there is no trace of any "cult

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of personality" in Hungary. He has not groomed a successor - a matter of concern to many Hungarians.

He is a keen football supporter and chess player, and enjoys shooting and the cinema, especially Westerns. To meet he is impressive, alert and vigorous, and handles discussions in a businesslike way. He seems in reasonable health, though he is not very robust and may be beginning to tire. He is a chain smoker. Married, but no children. His wife worked in the Government Information office but has now retired. He does not speak English.

HGMAAT

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GYORGY LAZAR (LAA-ZARR)

Prime Minister: Member of the Political and Central Committees: Member of the Economic Policy Committee of the Central Committee.

Born 1924 of working-class parents. Having attended Technical College he worked as a draughtsman from 1942 to 1948. He joined the Party in 1945. He joined the National Planning Office in 1948 and rose to become its Vice President in 1963. Appointed Minister of Labour in 1970, he was given the job of implementing statutory wage increases as part of the New Economic Mechanism. In June 1973 he was promoted to Deputy Prime Minister with apparently overall responsibility for planning at both Party and Government levels. He was elected to the Politburo in March 1975. In May 1975 he was appointed Prime Minister in succession to Fock. Since then he has made several visits abroad, including France (1979) and FRG (1981).

He received Lord Carrington during the latter's visit to Hungary in 1980 and Sir Geoffrey Howe during his visit to Hungary in September 1983.

He owns a fine library and is a nature-lover who likes rambling and hunting. His wife is a secondary school teacher of Russian and Hungarian. They have one son born in 1951 who graduated from Budapest University in 1976.

Quiet-spoken and not a stimulating conversationalist. Friendly and straightforward. He is hard-working and intelligent, but more of an implementer than an innovator. From time to time there have been rumours of ill-health, possibly arthritis in the leg. In January-February 1983, he took leave for reasons of health, but since then appears to have carried out his duties as normal.

He speaks Russian, German and French - but not English.



PAL LOSONCZI (LOSH-ONTSKY)

President (of the Presidential Council) and Head of State:  
Member of the Political and Central Committees. Member of  
the National Assembly.

Born 1919. Of peasant stock, he worked on the land until  
1948. Having joined the Party in 1945 he was instrumental  
in getting his old landlord, Count Szechenyi, safely out of  
Hungary. He became Chairman of a cooperative farm, a  
position he held until 1960. During this period he became a  
member of the National Assembly (1953), an alternate member  
of the Central Committee (1954), and then a full member  
(1957). He was Minister of Agriculture from 1960 to 1967,  
when he was made President. He was appointed to the  
Politburo in July 1975.

Performs his ceremonial duties with dignity and address. He  
gave a dinner in honour of the Duke of Edinburgh in February  
1973 and again in August 1978. He received Mr Callaghan in  
July 1975.

Married. He speaks only Hungarian. In 1979, he underwent  
surgery to his spinal column, which probably helps to  
explain his erect bearing.



JOZSEF MARJAI (MORR-YOY)

Deputy Prime Minister. Member of the Central Committee, and of the Economic Policy Committee.

Born 1923. He entered the Foreign Service in 1948 and having been Chief of Protocol and Head of Political Guidance was promoted to the rank of Minister (Counsellor) in 1955. He served as Minister to Switzerland between 1956 and 1959, and as Ambassador to Czechoslovakia from 1959 to 1963. He returned to the Ministry of Foreign Affairs before being appointed Ambassador to Yugoslavia in 1966. He returned in 1970 to become Deputy Foreign Minister with responsibility for Western Europe, during which time he was host to Mr Anthony Royle, Parliamentary Under Secretary at the FCO. On the promotion of Puja to the rank of Minister in 1973, he was made State Secretary. In January 1974 he visited the Soviet Union and was received by Mr Kosygin. In December 1974 he was host to Mr Hattersley. He was elected a member of the Central Committee in July 1976 and appointed Ambassador in Moscow the next month. He has become the driving force behind Hungary's economic reform and behind the country's efforts to loosen her CMEA bonds and become a full member of the international financial and trading community in her own right. He received his present appointment as Deputy Prime Minister with responsibility for industry, agriculture and relations with CMEA in April 1978.

Received Lord Goronwy Roberts in September 1978 and Lord Limerick in May 1980. He visited the UK in March 1983 and was received by the Prime Minister.

Married with one son. He speaks German and some French and appears to be learning English: he can understand a fair amount, but does not speak it. A small, dowdy man, he is treated with respect by senior officials. An odd but very



energetic character with a cryptic sense of humour. When he was in the Ministry of Foreign Affairs he was said to work late every night, and was sometimes described as the "intellectual" of the Ministry. Is reported to be a hard bargainer. Now spoken of as a possible future Prime Minister providing some reported health problems do not become too serious. During his Ambassadorship, he allegedly crossed swords with the then Deputy Prime Minister Gyula Szeker, who, in his view, was too lenient in negotiating with the Russians. A doughty patriot.





Dr MÁTYÁS TIMÁR (TEE-MARR)

President of the Hungarian National Bank (with the rank of State Secretary): Member of the Central Committee and of the National Assembly: Member of the Economic Policy Committee of the Central Committee: Chairman of the Committee of Economic Sciences of the Hungarian Academy of Sciences.

Born 1923. A leather worker, he joined the Party in 1943. He then studied law at Budapest University and in 1949 joined the Ministry of Finance of which he became a Minister in 1962. He held this post until 1967 when he was appointed Deputy Prime Minister - but subsequently lost his position in June 1973. In 1975 he became President of the Hungarian National Bank, a powerful and technically very competent Hungarian institution. He is a committed reformer and attaches great importance to the Bank's standing in the international financial world.

He received Mr Peyton, Minister for Transport Industries in 1972, Mr Julian Amery in 1973, Mr Roy Hattersley in 1974, Lord Limerick and Lord (then Mr Gordon) Richardson in 1980. In 1982 he kept in close contact with the Bank of England and Lord Richardson during a period when Hungary was in serious need of further international finance.

His English is halting. He is slightly better in French and German but prefers to use an interpreter. His wife is an immunologist in the Biological Research Institute in Budapest. She speaks quite good English. They have two daughters, one of whom is married.

He is pleasant, highly intelligent and articulate. He is impressive and speaks with calm authority. Interested in the visual arts but not so much in music. He and his wife are devoted to their weekend cottage and garden in Visegrad.



PÉTER VÁRKONYI (VARR-KONYIE)

Minister for Foreign Affairs. Member of State Radio and Television Advisory Committee.

Born 1931. A Party member since 1948. Having graduated at the Foreign Affairs Academy, he was posted to Washington in 1951 but was declared persona non grata by the United States Government in retaliation for the expulsion of an American diplomat from Hungary. He served in London from 1951 to 1953 and in Cairo before becoming Head of the MFA Press Department. He joined the Secretariat of the Council of Ministers in 1961 and from 1965 to 1969 worked as Kádár's Private Secretary. He later became Deputy Head of the Foreign Affairs Department of the Party before taking up the post of Head of the Information Office of the Council of Ministers in 1969, with the rank of State Secretary. He became a member of the Central Committee in March 1980. Was Editor-in-Chief of Nepszabadsag from March 1980 before being appointed Secretary of the Central Committee in 1982. Appointed Minister for Foreign Affairs in July 1983. His journeys abroad since then included visits to the USA (September 1983) and to the FRG (December 1983).

Married. He speaks excellent English. His wife is a jolly extrovert, who also speaks English. Seriously injured in 1975, taking several months to recover. In his diplomatic career he had a record of intelligence work. He is said still to enjoy Kádár's confidence. His move from Central Committee Secretary to Foreign Minister was a shift sideways rather than a demotion. A cool, perhaps cold customer behind an affable exterior. He has a brother who is currently Hungarian Ambassador in Zimbabwe and at least one son.



PETER VERESS (VEY-RESH)

Minister of Foreign Trade since March 1979. Member of the Central Committee.

Born 1928 in Transylvania. Having served as Commercial Counsellor at Damascus and Tel Aviv, and as a Deputy Head of Department in the Ministry of Foreign Trade, he was appointed Deputy Minister in March 1971. Responsible for general economic and theoretical questions, he frequently acted as publicist for his Ministry. He was appointed Ambassador to France in December 1974. Succeeded Jozsef Biro as Minister of Foreign Trade in March 1974. He has been a member of the Central Committee since March 1980 and of the State Planning Commission since June 1980, when he was also appointed a member of the Economic Policy Committee of the Council of Ministers.

In 1972 he attended the Third Anglo-Hungarian Economic Colloquium organised by the Great Britain/East Europe Centre. In November 1973 he received Mr Amery during the Minister of State's official visit. Visited Britain at the invitation of the Minister for Trade, February 1981. Was host to Mr Peter Rees (Minister for Trade) in Budapest in October 1981. He is to visit the UK in April 1984 in connection with Hungarian Days in the UK.

Married, he speaks fluent English.

Very westernised. He has a relaxed, easy manner and answers questions frankly. A keen theatre-goer.

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AJC

FERENC ESZTERGALYOS (ESTER-GUYOSH)

Deputy Minister for Foreign Affairs.

Born 1927. Served in Hungarian Legation in Vienna from 1957-60. Ministry of Foreign Affairs from 1961-63. Appointed Minister, later Ambassador to Sweden, Norway and Iceland in 1963. Head of Department VI in MFA from August 1969. Returned to MFA as Under-Secretary in 1974, following a spell in Vietnam. Ambassador in Washington from 1975-81. Head of Western Department from 1981-83. Promoted to Deputy Minister for Western countries in August 1983.

Married. Both he and his wife speak good English.

Amiable and cooperative. Somewhat long-winded but an effective operator.



LAJOS NAGY (NODGE)

Director General, Ministry of Foreign Affairs.

Born 1932. Served in London from 1960-65. American desk of MFA, later Assistant and then Deputy Head of Western Department of MFA from 1965-68. Washington from 1968-70. Madrid from 1970-73. Head of Protocol, MFA from 1973-77, then Ambassador to Venezuela, Jamaica and Trinidad and Tobago. Returned to Western Department of MFA in July 1981 and became its Head in August 1983.

Married. Speaks excellent English.

Intelligent. Pleasant and well-disposed but sticks closely to official lines. Directly responsible for British affairs.

HUNGARY1. Population and Land Area

(a) Land Area	93,030 km <sup>2</sup>
(b) Population (1981)	10.7 mill
(c) Population Growth Rate (1970-80)	0.4 % pa

2. Economic(i) Gross National Product

1981

(a) Total	22,550 US\$ mill
(b) Growth Rate	3.1 % pa
(c) Position in Total GNP League Table	47 (of 189)
(d) Per Capita	2,100 US\$
(e) Position in Per Capita League Table	70 (of 189)

(ii) Overseas Finance

(a) <u>Exchange Rates</u>		1979	1980	1981	1982	
Forint per	£1 Sterling =	75.482	75.679	69.585	64.123	
	US \$1 =	35.578	32.532	34.314	36.631	
(b) <u>Balance of Payments</u>		1979	1980	1981	1982	US\$ mill
Exports		7,949	8,877	8,894	9,057	
Imports		-8,509	-9,020	-8,855	-8,579	
Invisibles and Transfers (net)		-382	-434	-937	-898	
Current Account		-942	-577	-898	-420	
Capital Account		706	1,230	425	1,003	
Balancing Item		71	-150	30	357	
Overall Balance		-165	503	-433	940	
(c) <u>International Reserves</u>		1979	1980	1981	1982	US\$ mill
Total Reserves		1828	2090	1652	1154	
Months of Imports covered		2.27	2.32	1.76	1.26	

(iii) Foreign Trade

(a) <u>Main Exports</u>	1976	1981	%
Raw Materials & Semi-Finished Goods	29.5	29.5	
Capital Goods & Transport Equipment	27.3	25.3	



Raw & Processed Foods	23.1	25.2	
Manufactured Consumer Goods	17.7	15.9	
Fuels & Electric Energy	2.4	4.1	
(b) <u>Main Export Markets</u>	<u>1977</u>	<u>1982</u>	%
USSR	30.4	34.7	
FRG	8.7	7.6	
GDR	9.2	6.5	
Czechoslovakia	7.2	5.7	
Poland	4.9	3.9	
(United Kingdom)	1.3(13th)	0.9(20th)	
(c) <u>Main Imports</u>	<u>1976</u>	<u>1981</u>	%
Raw Materials & Semi-finished Goods	49.7	49.0	
Capital Goods & Transport Equipment	20.8	17.6	
Fuels & Electric Energy	11.2	15.1	
Manufactured Consumer Goods	7.9	9.2	
Raw & Processed Foods	10.4	9.1	
(d) <u>Main Import Sources</u>	<u>1977</u>	<u>1982</u>	%
USSR	27.5	30.1	
FRG	10.9	12.0	
GDR	8.2	6.9	
Czechoslovakia	5.5	5.4	
Austria	4.7	5.1	
(United Kingdom)	2.0(13th)	1.8(13th)	
(e) <u>UK Trade with Hungary</u>	<u>1977</u>	<u>1982</u>	
Total UK Exports	61.9	77.4	£ mill
Total UK Imports	43.2	44.1	
Real Growth of Imports (five years ending)	1.1	-4.4	% pa
Position in UK Export League Table	66	63	(of 197)
(iv) <u>Development Aid</u>			
(a) <u>Reported Aid Receipts</u>	<u>1981</u>	<u>1982</u>	US\$ mill
Not applicable. However, we believe that Hungary has given as aid the following:			
Aid disbursements	23.1	15.3	



(v) <u>Inflation</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	% pa
Consumer Price Index	9.1	4.6	6.9	
(vi) <u>Overseas Debt</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	%
(a) Debt Service Ratio	33.7	32.7	35.1	
(b) Overseas Debt/Exports	84.2	73.6	NA	
(c) Overseas Debt/GNP	38.6	34.2	NA	
(vii) <u>Overseas Direct Investment</u>				
(a) UK Investment in Hungary			NA	
(b) Position in UK League Table			NA	
(c) Hungarian Investment in UK			NA	



UK MAJOR EXPORTS TO HUNGARY IN 1982 (£m)

<u>Description</u>	<u>SITC</u>	<u>Value</u>	<u>% of Total</u>	<u>Cumulative</u>
Organo-inorganic and hetrocyclic compounds	515.00	3.9	5.0	
Disinfectants, fungicides, etc	591.00	3.3	4.2	
Carboxylic acids	513.00	2.8	3.5	
Miscellaneous chemical products	598.00	2.7	3.4	
Specialised industrial machinery and equipment	728.00	2.6	3.4	19.5
Medicinal and pharmaceutical products	541.00	2.4	3.1	
Textile yarn	651.00	2.3	2.9	
Analysing and measuring equipment	874.00	2.2	2.9	
Paper and paperboard	641.00	2.1	2.7	
Electrical machinery and apparatus	778.00	1.9	2.4	14.0
Manufactures of base metal	699.00	1.8	2.3	
Nitrogen-function compounds	514.00	1.8	2.3	
Pumps and compressors (other than for liquids)	743.00	1.7	2.1	



Meat and edible offals	11.00	1.6	2.1	
Heating and cooling equipment	741.00	1.6	2.1	10.9
Wool and other animal hair	268.00	1.3	1.7	
Hydrocarbons	511.00	1.3	1.6	
Synthetic fibres (for spinning)	266.00	1.3	1.6	
Pigments, paints and varnishes	533.00	1.2	1.6	
Non-electrical machinery tools and mechanical equipment	745.00	1.1	1.4	7.9



UK total exports to Hungary 1982 (£m) = 77,445.8