The relationship between internal and external prices is one of the most important features of the present Hungarian economic system. This can be attributed not only to the very high share of foreign trade in the national income but also to the economic policy which aims at utilizing the resources released as a result of the changeover from the extensive method of development to the intensive one. Accordingly the aim of economic policy is to guide the enterprises towards the competitive conditions of a normalized international trade. The connexion between internal and external prices is established by the following means:

(a) foreign trade price multipliers;
(b) tariff system;
(c) turnover taxation system;
(d) price policy.

(a) Foreign trade price multipliers

Hungary has no convertible currency. An organic relationship ensuring growing automatism has been established between internal and external prices by means of the so-called price multipliers. The foreign trade is effected at price multipliers being uniform both for export and import. In establishing the price multipliers it was calculated -- taking into consideration a longer period -- what the average cost in terms of domestic currency (forint) is of the two main foreign currencies (dollar and rouble) at the given commodity structure of Hungarian foreign trade, and at the given commercial terms and prices. The price multiplier does not vary according to countries, to export or to import, to products; there is no discrimination among the contracting parties.
The means of management of the new economic mechanism have to comply with a double requirement: on the one hand, it is necessary to ensure that the means regulating the basic conditions of the work of enterprises should be relatively constant for several years. On the other hand, the system of means should make it possible to adapt oneself in a flexible way to the changing conditions. The price multiplier belongs to the regulators which can generally be applied for a longer period.

(b) Tariff system

The import is subject to customs duty on the basis of the commercial customs tariff introduced on 1 January 1968. Hungary has an efficient tariff system; the customs duty is a factor of price calculation, i.e. it is actually paid. The price influencing effect of the duty is felt by the importer or end-user.

(c) System of turnover taxation

The Hungarian domestic taxation system is made up of the hereafter enumerated components having been published in the official journal. These do not contain any kind of discrimination regarding imported or domestically produced products.

- Asset rent charged on the average amount of fixed and current assets used (stored) by enterprises

- Salary tax and social security charges calculated on the amount of wages and salaries paid

- Income tax, on the audited enterprise profit

- Production (commercial) tax in certain cases on the surplus income of enterprises originating from specially advantageous conditions

- Turnover tax according to the following:

  Turnover tax is charged on goods sold by the producer to the retail trade or directly to the consumers, ensuring desirable consumption prices as against manufacturing prices. Turnover taxes for this reason do not have an influence on the producers' prices, not even in the trade among producers, as the turnover tax is only charged on consumer goods and only when they are marketed.

  Turnover tax rates are published in the official journal as a Ministry of Finance Decree. The data are available to anyone. Turnover tax does never make any kind of distinction according to the origin - domestic or imported - of goods.
The basis for the calculation of the percentage of turnover tax is the retail cost price which is identical with the wholesale selling price. The same rates of taxes are applied both for imported and domestic products, but the rate is of different magnitude for the individual products.

A special import turnover tax is applied for goods and countries where the tariff system cannot ensure the internal harmony between the price of the foreign goods and the prices of the Hungarian internal market. The import turnover tax is payable by the importing enterprise having the right to perform foreign trade activities and it is authorized to charge the end-user passing the order, with the import turnover tax.

(d) Price policy

In the Hungarian economic management system the price mechanism is flexible which means that only a limited range of prices are fixed by the authorities.

In order to ensure a smooth transition, however, it was not possible to make every price free and at the same time it is also necessary to establish the relative stability of the consumer price level. Consequently, fixed or maximum prices are set by the authorities for a considerable proportion of basic consumer goods as well as for some basic materials.

In the course of its price regulating activity, the competent authority takes into consideration the market conditions both at home and abroad and on this basis it supervises regularly and, if necessary, modifies the prices regulated officially.

The price system ensures the close relationship between foreign and domestic prices. The price of imported goods is reflected in the internal price through the price multipliers and tariffs.

Thus the components of the domestic price of imported products are: the purchase price converted into domestic currency by means of the price multiplier; the customs duty; in the case of consumer goods the turnover tax; the marketing expenses and the income margin of the enterprises.

Reference: I/3301
I/3426