

Privatisation in the Hungarian Tourist Industry

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INTRODUCTION

After 1989, the structure of the Hungarian economy and property ownership needed to undergo a radical change: predominantly state-owned property had to be placed under private ownership, and the economy based on central planning and heavy industry as a priority had to give way to a market economy with a modern structure, a well-developed infrastructure and a service sector.

Similarly to most of the Central and Eastern European countries, the Hungarian government has declared privatisation as their aim, but the lack of national capital made this aim difficult to achieve. Foreign investment has been encouraged and facilitated. Privatisation has been conducted under different techniques, like "*small privatisation*", stock exchange flotation or ESOP (Employee Share Ownership Programme). The process has been slow and bureaucratic, with the most important decisions being taken by the State Property Agency. (In 1995, the State Property Agency and the State Property Handling Co. have been merged into the State Privatisation and Property Handling Co.)

In the tourism industry, the most important changes have been the growth of small- and medium-sized private enterprises, the transformation of the system of social tourism and the disappearance of the traditional monopolies in the tour operation and accommodation sectors. The number of joint ventures has also been growing and most of the former state-owned companies have been privatised. The supply has been becoming increasingly varied and more and more participants have been sharing in the declining market demand. Especially in the sector of intermediaries, the market is determined by a great number of market participants. Thus Hungary has found itself with an interesting paradox: at a time when the travel possibilities of Hungarians has considerably lessened because of the narrowing solvent demand, genuine market relations have begun to be formed in outgoing tourism.



1. TOUR OPERATION AND TRAVEL RETAIL

Between 1990 and 1991, close to 2000 new travel agencies were opened in Hungary without any sort of licences. After a few dozen bankruptcies and thousands of cheating on tourists, the supervising authority, the Ministry of Industry and Trade decided to bring the sector under regulation and now travel agencies are required to obtain preliminary permits based on financial and professional guarantees. According to the figures of the National Tourist Board, at the moment 874 tour operators and travel agencies operate in the country. (The two activities are often mixed in the profile of the companies, so can not be registered separately in the statistics.)

The case of the Ibusz company as an example of the privatisation process in the intermediary sector is presented.

Ibusz is Hungary's oldest and largest tour operator and travel agency, its legal predecessor was formed in 1902. The company became a state body in 1948, in charge of handling Hungarian tourism, operating under the supervision of the Ministry of Transport. In 1951, its share became 100% state properties. From 1948, the Co. was operating in a monopoly position as the activities of all the other companies involved in tourism were brought to a halt. This monopoly ended only in the second part of the 60's, when new tourist companies (like Cooptourist) or tourism departments of various transport companies (e.g. MALÉV Air Tours or Volántourist) were established.

The privatisation process of Ibusz started in 1988, following the enactment of the Company Law. At that time, Ibusz had a HUF 1.2 million share capital and disposed of a network of representations in 23 countries. After the enactment of the Company Law, the Ibusz Co.'s Board of Directors decided to raise the company's share capital in two stages, and to issue shares publicly. As at that time, in May 1989, there was no reliable information about setting up the Budapest Stock Exchange, Ibusz Co. management held talks with several foreign banks and consulting companies on listing the shares at a foreign stock exchange. The tender was won by Girozentrale Wien. So when the BSE opened on 21 June 1990, Ibusz shares were listed both on the Budapest and Vienna Stock Exchanges. One part of the shares was put up for public sales and the State Property Agency also offered shares for non-public sales to Ibusz employees. The first issue of shares was a great success, during the subscription period subscriptions were made for 23 times more shares than the company actually had.

By the end of 1990, the ownership structure was the following: State Property Agency 61.5%, small-size foreign investors 32.1%, Hungarian investors 4.5%, Ibusz employees 1.9%.

After the successful transaction, the State Property Agency drew Ibusz into the circle of the 20 large companies participating in the First Privatisation Programme of the

Hungarian state. 13 bidders made offers to privatise the 61.5% state share of Ibusz Co., finally NM Rotschild and Sons Ltd and Intereuropa Bank Plc won the tender.

In July 1991, Ibusz Co. raised its capital share again. The shares were bought by foreign companies and the state's share was reduced to 56%. Following that, as a result of a State Property Agency tender, a consortium consisting of the Hungarian Commercial and Credit Bank and the Social Insurance Administration has obtained a majority share in Ibusz Co. By that, the two-year-long privatisation process of Ibusz Co. was completed, the state ceased to hold shares directly.



2. ACCOMMODATION

While the process of building a market oriented intermediary sector was relatively speedy, progress in the privatisation of hotel companies was rather slow. Before 1989, the accommodation sector of Hungarian tourism consisted of three state-owned hotel chains: Pannónia, Danubius and HungarHotels. Though in the 80's, international chains (like Hilton, Intercontinental, Hyatt, Penta or Forum) opened hotels in Budapest, these establishments were jointly owned with the Hungarian state, were managed by Hungarian companies and profits were shared. The three hotel companies were transformed into public limited companies in 1989-90, but their further privatisation in the autumn of 1991, in the framework of the First Privatisation Programme, ended in failure.

But, despite of the difficulties experienced in privatising the large chains, the largest part of the Hungarian accommodation capacity became private quite quickly, as smaller family and private enterprises were expanding all over the country, mainly around Budapest and in the Lake Balaton area. Already in 1991, 280 private guest houses and hotels and 114 private campsites were operating, by now these numbers have grown to 450 and 170, respectively. Additionally, many hotel investments were formed with considerable foreign capital. The greatest attraction for foreign capital investments was Budapest, especially within high category accommodation and spa hotels (Thermal, Hélia, Corvinus, Aquincum, Liget). Foreign and joint-owned hotels and tourism establishments have been advantageous not only because they have increased the quantity of supply but – and this is even more important – the quality as well.

The HungarHotels privatisation is the most infamous case in the privatisation of Hungarian tourism. The story started in December 1989, when the company was transferred into a public limited company and hasn't come to an end yet. The first privatisation tender was won by the Swedish group Quintus, but for legal reasons, the transformation – and the tender – was invalidated. Within the following six years, the chain has become a public limited company and 35 units of the original 50 ones were sold separately, including the sale of Hotel Duna Intercontinental to Marriott.

In the second tender, on 14th December 1994, the State Property Agency accepted the bid of the American General Hospitality for the 51% stake in the packet of the 14 remained HungarHotels units. (The 15th unit, Hotel Budapest, was not part of the deal.) The sale price offered by American General Hospitality was USD 57.7 million. One day later, following the objection of Prime Minister Gyula Horn that HungarHotels assets had been undervalued and that privatisation negotiations had not been professionally handled, the State Property Agency declared the American General Hospitality tender invalid. Even before the official cancellation of the deal, tourism experts' opinions were divided regarding the suitability of selling the 14 units of the HungarHotels chain as one packet or separately. After the State Property Agency's decision, the Tourism Research Centre of the Budapest University of Economic Sciences together with the Hungarian Tourism Society carried out a survey on the opinion of hotel executives and employees about this issue and about the general judgement of the hotel privatisation. As you can see in Table 1, most of the respondents did not find hotel privatisation absolutely successful, mainly because of the too low sales prices and the lack of professional privatisation concept on behalf of the state (Table 1).

Table 1 – Opinions of hotel executives and employees about hotel privatisation between 1990-1994

Opinion	% of answers
Successful	11.26
<i>Could have been more successful</i>	<i>56.34</i>
Unsuccessful	26.74
No answer	5.64
<i>Total</i>	<i>100.0</i>

Source: Hungarian Tourism Society and BUES Tourism Research Centre (1995): Hotel marketing and privatisation

Most of them also agreed with the decision of the State Property Agency on the grounds that the estimated value of the chain exceeded the price offered by American General Hospitality and that, in the interest of Hungarian tourism, HungarHotels should become a national chain (Table 2 and 3).

Table 2. – Opinions of hotel executives and employees about the interruption of the process of HungarHotels privatisation

Opinion	% of answers
<i>Agrees</i>	<i>42.3</i>
Disagrees	16.9
No definite opinion	33.8
No answer	7.0
<i>Total</i>	<i>100.0</i>

Source: Hungarian Tourism Society and BUES Tourism Research Centre (1995): Hotel marketing and privatisation

Table 3. – Recommendations for the future utilisation of HungarHotels

Recommendation	% of answers
1. The units should be sold one by one to foreign investors	7.0
2. The chain should be sold as a whole to foreign investors on a higher price	9.8
3. To maintain HungarHotels as a national chain	28.0
4. To sell it later in better economic circumstances	1.2
5. Recommendations 1. or 2.	4.3
6. Recommendations 3. or 4.	4.3
7. To maintain Hungarian majority property with possible foreign participation	4.3
8. At least limited management and employee ownership	4.3
9. To be sold to national investors	5.6
10. The units should be sold one by one to either national or foreign investors	2.8
11. Other	8.6
12. No answer	9.8
<i>Total</i>	<i>100.0</i>

Source: Hungarian Tourism Society and BUES Tourism Research Centre (1995): Hotel marketing and privatisation

If compared with the case of HungarHotels, the privatisation of Pannónia and Danubius went on quite smoothly. Both chains were first transformed from state companies to public limited companies, then their majority property was sold to private investors. 51% of Pannónia Hotels Co. were purchased by a Luxembourg registered holding named Holpa in November 1993. 36.4% interest in Holpa are held by the French company Accor, so in the privatisation process Accor has become the strategic partner of Pannónia. To fund this transaction, Accor transferred to Pannónia part of its assets in Austria. At the moment, Pannonia Hotels Co. operates 14 units in Hungary and 6 ones abroad (in Austria and in Germany).

After the legal transformation, in 1992, the shares of Danubius Co. were listed on the Budapest Stock Exchange. 25% of its share capital was sold to small investors with very favourable subscription conditions. The remaining 75% went into the ownership of municipal governments, the company's employees, an insurance company or remained at the State Property Agency. At the moment, Danubius Hotels operates 11 hotels and spa resorts throughout Hungary, including Budapest Hilton and Ramada Grand Hotel. During the past three years, the ownership structure of Danubius has been changing, from April 1995 the chain's largest shareholder is CP Holding, a British investment firm, with 31% of the stock. (CP Holding tried to buy the company already in 1991, but then the State Property Agency rejected its bid.) CP Holding is not Danubius Hotels' only foreign shareholder: at the beginning of 1994, a group of three US institutional investors – Kingdon Capital Corp., Indian Harbor Holdings and General Electric Co.'s pension plan – acquired 29.8% of the company.



3. RESTAURANTS

Before 1989, the restaurant trade was mainly owned by catering companies or by companies also involved with managing hotels, for instance Pannonia. However, in the 80's, the smaller establishments were transferred to the private sector through competitive leasing based on tenders and, additionally, a wholly private restaurant and catering sector emerged, especially in Budapest and in the main tourist areas. International fast food franchises, like McDonald's, Pizza Hut or Kentucky Fried Chicken also opened their outlets in the country, first in Budapest, then in the bigger cities. In the last few years, many new private restaurants, coffee-shops and confectioneries have been opened and by now, the whole hospitality sector is in private ownership.



4. TOURIST OFFICES

In Hungary, all the 19 counties had their own tourist offices. Originally, these tourist offices had been founded to perform non-profit tasks: to collect and analyse statistics from the business sector, to provide information about attractions and facilities, to book accommodation, to co-ordinate the operations of the county's tourist companies and so on. The tourist offices were owned and funded by the county governments. As central budget subsidies were generally insufficient, in order to maintain their existence, the offices supplemented their basic services with profit-oriented activities like camping management or tour operation, and, little by little, became mixed profile organisations.

Organisations financed by state budget are always dependent on the frequent changes of budgetary regulations and can hardly manage their assets on their own. So, after the Company Law had been enacted, all the county-level tourist offices aimed at being transformed to public limited companies. The process of transformation was slow and bureaucratic, but, after a few unsuccessful attempts, by 1992-93 the legal transformation has been accomplished. Now the former offices work as the largest tourist companies of their counties and the non-profit tasks seem to have been losing their share and importance. As the quality of tourist information is criticised by tourists all over the country and statistics available are usually insufficient, experts have the opinion that the non-profit tasks should be separated and performed by public organisations, while the existing county companies should operate in the business sector and manage their counties' tourist facilities.



5. SOCIAL TOURISM

Before 1989, social tourism played a significant role in national tourism in Hungary. All over the country, trade union holiday resorts offered vacations to people for small payment. These holidays were subsidised by the state. A similar form of social tourism has remained in existence until recent years, though the decreasing contributions and the increasing prices have been leading to a decline.

The transformation of the trade union hotel resorts started in 1992, when the government created the National Resort Fund and gave to its ownership the whole system of social tourism. The Fund's members are trade unions, the Ministry of Public Welfare, and employers, so the Fund itself is a public rather than a private institution. The Fund, as the owner, established the National Holiday and Property Handling Limited Co. for the administration of the estates. In 1993, this limited company was transformed into a public limited company named Hunguest. At the moment Hunguest owns or manages more than 250 establishments (mainly hotels). Most of these establishments operate as commercial facilities as well, in order to generate a supplementary income. The main issue of the company's further transformation is whether the state should subsidise the establishments which operate in this framework or the individuals who take their holidays in these establishments. At the moment Hunguest is planning the introduction of a new subsidisation practice following the example of the French ANCV "*holiday cheque*" system.



6. TRANSPORTATION

The transportation sector must also be considered as a part of tourism. In Hungary, among the main transportation companies, only the national airlines MALÉV went through partial privatisation, though MÁV, the Hungarian railways and Volánbusz, the major coach company have also been transformed from state companies to public limited companies. After MALÉV's transformation in 1992, the company's management planned a joint venture with three partners from Western Europe, America and the Far East, but in the latter two areas investors were rather disinterested. From Europe, British Airways, KLM, Lufthansa and Alitalia showed interest in MALÉV's privatisation, and finally Alitalia and the Italian state investor company, Simest won the right to buy 30 and 5% of the company's raised share capital, respectively. The former owner, the State Property Handling Co. kept 50% of the stock plus 1 share, the remaining shares went to the ownership of local governments. Alitalia offered not only the highest price – USD 77 million – but co-operation possibilities as well. A few months after the deal, MALÉV launched its first overseas flight to New York, through Rome. The two companies also agreed in

harmonising their respective schedules and frequent flyer's programmes. Though in the past three years the operation of the MALÉV-Alitalia joint venture has not gone without difficulties, Alitalia has recently announced its intention to participate in MALÉV's forthcoming further privatisation.



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