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The Transition Economy of Hungary between 1990 and 2004

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Abstract

Transition is a process during which a country shifts from planned economy to market economy. Hungary is one of the Central and Eastern European countries that experienced this process between 1990 and 2004. In order to be able to fit the post-communist countries into the European Union, and to make the integration of these countries better we have to understand their past and the way they went through during a transformational and structural change.

This thesis examines the economic development of Hungary throughout this particularly difficult period of time, and compares its development to other countries in similar situations. The thesis is aimed at finding the internal and external factors that affected the economic performance of Hungary in the examined time period.

The topic is approached by analysing statistical data and investigating related literature on the topic of transition. The first section of the thesis examines the changes in macro-economic variables, GDP, productivity, employment. The reasons for the observed sharp drop in output are complex. This transformational recession is due to the loss of old markets and also to the creative destruction that was needed in order to lay the foundations of a new, healthy market economy on the ruins of a distorted communist structure. The change in the structure of ownership with privatisation as a frontrunner is considered to be a very successful process in the Hungarian economy. We cannot say this about the monetary policy of the different governments, or the reforms of important puzzles such as agriculture, health care and higher education. These issues still require a comprehensive financing reform.

The most argued reform attempt of the Hungarian transition is the so-called Bokros package. It was implemented to save the country from financial collapse and stabilise its economy. This thesis finds that although the package included some not well-elaborated and in many cases unnecessarily measures it hit the population as a shock therapy, and not only saved the country, but also put it on the road of sustainable growth. After this stabilisation program the country was able to integrate into the world economy, cope with globalisation, fulfil the Maastricht requirements, and join the European Union in 2004.
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1. Introduction

In my thesis I am going to analyse the transition of Hungary from an economic point of view. I am going to write about the transformation from market to planned economy during a period of 15 years, starting with the transition, and finishing with the joining the European Union. I also would like to mention that the majority of the literature related to this topic was written a few years after the beginning of the transition, in the mid 1990s. They only examined the first years, and also made suggestions for the future. However, except a few cases, no feedbacks or complete overviews were written towards the end of the transition. I would like to fill in this gap, and give a complex, comprehensive presentation of the topic.

My reason to choose this topic is partly academic, and partly personal. From the academic point of view the effects and traces of political and economical systems are very interesting to investigate. Half of today’s Europe is still recovering from the 50 years of Communism, which is still present in other parts of the World. The most significant example is China. The transition of post-communist countries from planned economy to market economy is a big challenge and a big opportunity at the one and same time. The relatively sudden change of system was a big shock – both positive and negative shock at the same time.

This is where the topic is connected to my personal reasons. I was born in the communist Hungary. The transition affected me and my family very intensively, like it did to the rest of the nation. The amazing West and its wonders became available all of a sudden, so everyone looked into the future with high expectations. But we had to experience the downsides of the change as well. Many people lost their jobs, including my father, who was working for a state-owned timber company that was eliminated in the first place after the transition. Everything became insecure, prices started to increase at a frantic pace. Now that I am older than 8 years, I would like to take the chance, and fully understand the events of this very important period of the Hungarian history.

1.1 Structure of the paper

I am going to start my thesis by giving an outline of the communist period, in order to understand the transition process better. I find it important to highlight the special features, characteristics of the Hungarian communism, and the economic situation of the
country. I am also going to list the expectations and the initial terms of the transition. In
the next chapter I give an overview of the economic development, as a starting point of
my further, deep and detailed analyse that is followed in the forthcoming chapters.

In Chapter 4, I am going to start the analysis by comparing Hungary to other
transition economies. The chosen countries are Poland, the Czech Republic, the
Slovakian Republic and Bulgaria. First I am going to examine the changes in certain
macroeconomic variables such as output, productivity and employment. The next
subchapter is very important, since it embraces the process of privatisation. I am going to
compare the different ways of privatisation used by different countries. After that the
examination of the inflow of foreign direct investments (FDI) will follow. The last
section of this chapter deals with the monetary policy. I put special emphasize on the
development of inflation.

Chapter 5 covers the dilemmas of Hungarian economic policy. The most important
and most disputed issues are the crisis of agriculture, health care and higher education.

Chapter 4 and 5 are much connected to the next chapter, which deals with the deep
structural and transformational crisis of 1994-1995. I am going to highlight the details of
the stabilisation program, the so-called Bokros package that was supposed to solve the
crisis. I am also going to examine the long-run effects of its measures.

In Chapter 7, I am going to present the environs of the Hungarian national
economy. I am going to cover the most significant power relations of the World
economy, expose the effects of globalisation and regionalisation, and finally I am going
to present Hungary’s connection with the European Union. I consider it very important to
get familiar with the external impacts on the Hungarian economy.

Finally, I am going to draw a conclusion and attempt to make some
recommendations, propose a solution for the unsolved reform issues.

1.2 Problem Statement

The main goal of my thesis is to analyse the economic performance of Hungary,
and find the factors, the internal and external reasons that affected this performance.
Secondly, I am going to focus on the economic policies of the Hungarian governments.
1.3 Literature Survey

The topic I chose to write my thesis about is very wide. Accordingly there are many literatures about it. The transition of the post-communist states is a recent, and in many cases a still unfinished historical event. It has also been an object of interest for many recognised economists of our age. In this section I will give a review of the most important works I met during my research.

The book of Olivier Blanchard gave the framework for my analysis of the economic development. In “The Economics of Post-Communist Transition”, published in 1997, he examines the U-shaped response of output of five Central European countries, in the first 6 years of the transition. I used his methodology for comparing the output, productivity and employment of the analysed countries. He also examines the basic mechanisms of the transition, and puts up models in order to explain the perceived statistical changes.

The most important sources for my thesis have been the works of the Hungarian János Kornai. He has written hundreds of books, articles and studies about the Hungarian economy, before and after the transition as well, and has given very vulnerable suggestions for Hungarian governments. The main book of his recommendations is “The Road to a Free Economy- Shifting from a Socialist System, The Example of Hungary” from 1990. In this book he puts emphasis on the reform of ownership, distinguishing two ways of privatisation, and he precipitates the performance of a stabilisation program. He also considers the political point of view and problems. I followed this work in the chapters about privatisation and monetary policy. The next very important work of Kornai is the self-evaluation of his own book, an article written 10 years after the transition. In this paper he is looking back critically at his own recommendations. He also takes the steps that were eventually carried out into consideration. I used other three studies from János Kornai in my paper. One of them is an article from 1996: “Paying the Bill for Goulash Communism: Hungarian Development and Macro Stabilisation in a Political-Economy Perspective”. In this work he goes back to the Communist past, and describes the pre-transition achievements of Hungary, and also the heritage of the communist system, and its effects of the post-communist Hungarian economic policy. The second article, “The Great Transformation of Central Eastern Europe: Success and Disappointment” is from 2005. This paper talks about the completed transformation of the countries of the area, and enumerates the distinctive characteristics of their

I used the book of Éva Erlich and Gábor Révész, “Hungary and Its Prospects-1985-2005” from 1995, in many chapters of my thesis. They not only analyse the economic development of the country, but also the changes in politics and legacy. They cover many areas of the transition, like privatisation, agriculture, finance system, society, health care, education, science and technology. The main problem of the book is that it was written in 1995, only five years after the beginning of the transition, and it tries to give a prospect of all the mentioned issues for another 10 years, reclining upon assumptions. Retrospectively their suggestions and recommendations seem a little bit idealistic, and did not come into existence.

Another significant Hungarian author and economist, who examines the transition is László Csaba. In the article “Transition in and Towards Europe: Economic Development and EU Accession of Post-Communist States”, written in 2004, he suggest structural reforms. In the other article that I used, “Social Change in Central and Eastern Europe: General Trends and National Patterns” from 2006, he covers not only economic issues, but other important points of the society, like democracy, poverty, redistribution and education.

The last author I would like to mention is József Veress. Not only in the article that I used as a resource in this work (Externalities of Globalisation from 2002), but generally in most of his papers he discusses the World around an economy and its effects on it. He writes about the new roles of the states that they need to adapt in order to fit in the circumstances of a changing World. I refer to him in the final chapter, in the section about globalisation.
2. Hungarian Economy Before 1990

In order to analyse the transition economy of Hungary, it is necessary to be familiar with the economy of its former regime. First, I would like to give a short overview of the Hungarian history in the Communist era\(^1\). After that I am going to highlight some characteristics of the Communist command economy, and finally I am going to discuss the special features of command economy in Hungary.

2.1 Short History

Hungary’s official name was the Peoples State of Hungarian Republic from 1949 to 1989 during its communist period. Mátyás Rákosi became leader of the country in 1949. He attempted to impose authoritarian rule in Hungary. In Hungary the communists that were helped to power by the Soviet Union, despoiled every owner of their possessions. Most of the middle class was removed from their jobs. They changed history, and by doing so, they took away everything that had a positive recognition and used to be the source of national proud. Rákosi rapidly expanded the education system in Hungary. This was an attempt to replace the educated class of the past by what Rákosi called a new "working intelligentsia". In addition to effects such as better education for the poor, more opportunities for working class children were generated, and it increased literacy in general. This measure also included the dissemination of communist ideology in schools and universities. Also, as part of an effort to separate the Church from the State, religious institutions were denounced as propaganda and were gradually eliminated from schools. In the countryside, Rákosi attempted to impose forced collectivisation. Rákosi had difficulties in managing the economy and the people of Hungary saw living standards fell. His government became increasingly unpopular, and when Stalin died in 1953, Mátyás Rákosi was replaced as prime minister by Imre Nagy. However, Rákosi retained his position as general secretary of the Hungarian Workers Party and over the next three years the two men became involved in a bitter struggle for power, which ended up with the imprisonment of Imre Nagy after the 1956 Hungarian Revolution. Nagy was executed in 1958.

\(^1\) http://www.sjsu.edu/faculty/watkins/hungary.htm:
After the revolution, the Soviet loyalist, János Kádár became the head of the newly formed Hungarian Socialist Workers’ Party. He led a wild terror against the revolutionists. But in the early 1960s, Kádár announced a new policy under the motto of "He who is not against us is with us." (He changed Rákosi’s quote 'He who is not with us is against us').

In 1966, the Central Committee approved the "New Economic Mechanism," through which it sought to rehaul the economy, increase productivity, make Hungary more competitive in world markets, and create prosperity to ensure political stability. Over the next two decades of relative domestic silence, Kádár's government responded alternately to pressures for minor political and economic reforms as well as to counter-pressures from reform opponents. By the early 1980s, it had achieved some lasting economic reforms and limited political liberalization and pursued a foreign policy which encouraged more trade with the West. Nevertheless, the “New Economic Mechanism” led to mounting foreign debt, and incurred to shore up unprofitable industries.

Hungary's transition to a Western-style democracy was one of the smoothest among the countries of former Soviet block. By late 1988, activists within the party and bureaucracy, as well as Budapest-based intellectuals were increasing pressure for change. Some of these became reform socialists, while others began movements which were to eventually develop into parties. In 1988 Kádár was replaced as General Secretary of the Communist Party by a reform communist leader, Imre Pozsgay. In 1989, the Parliament adopted a "democracy package," which included trade union pluralism; freedom of association, assembly, and the press; a new electoral law; and in October 1989, a radical revision of the constitution, among others. Since then, Hungary has tried to reform its economy and increase its connections with Western Europe. In a historic session from 16th of October to 20th of October, 1989, the Parliament adopted a legislation providing for multiparty parliamentary elections and a direct presidential election. The legislation transformed Hungary from a People's Republic into the Republic of Hungary, guaranteed human and civil rights, and created an institutional structure that ensures separation of powers among the judicial, executive, and legislative branches of government.

2.2 The Command Economy

The first thing we have to understand in connection of the communist economy is the fact, that the communist system was not a result of a social-economical development,
but it came into existence as an artificial construction of an ideological model. The basis of the theory was the goal of achieving social and financial equality between all people. However the market forces all its actors into a competition, and competition results in winners and losers. Therefore the starting point of the communist economic system was a theory that denies the market, private economy and production, and promises total equality. To create and maintain this system, the state had to use all its tools of power.

One of the main and distinctive characteristics of the communist economy was the radical liquidation of private property and the collectivisation of factors of production. But introducing state property meant that factors had no owners in fact. The economical organisations became part of the bureaucratic control of the state. A command or planned economy was created.

The other important characteristic of the system was dictatorship. Since humans are also part of the production, they should be ordered under the central power too.

We can say that the countries of Eastern and Central Europe followed the same economic policy, dictated by Moscow. The following features were kept: Forcing the economic growth, following quantitative goals, concentrating on heavy industry, expanding the resources employed, including retaining full employment. Eliminating market influences, and obtaining planned, command economy.

The state owned firms were described by low efficiency, lack of motivation, and waste of resources. A quantitative approach became a leading approach of the economy. On one hand the main goal of the production was overfulfillment of the plans, on the other hand living labour, and resources were wasted, while quality, research & development and efficiency were totally ignored. Centrally planned economy resulted in a misshapen economical framework, falling behind the world standard, and caused a scarce economy. A tight labour market was one typical indicator of this lack of balance. The economic structure of the involved countries was marked by a preponderance of manufacturing, heavy industry (in some countries the defence industry). These technologies had very high energy and raw-material needs. The organisations directly serving industrial production were typically in monopoly situations. Not only because of their large size, but also because of the administrative restrictions under which these organisations were assigned to act of bureaucratic coordination and control. All this was accompanied by a very low proportion of employment in the service sector.

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At the beginning of the transition all post-communist countries had to face with the lack of vital infrastructure and the low standard of services.

### 2.3 Features of the Hungarian Communist Economy

The two decades prior to the transition brought significant changes to the Hungarian economy that distinguished the economical circumstances in Hungary of the Soviet and other economies in the region. This is important, because these changes had a big role in the peaceful transition of Hungary.

Like everywhere else, the Communist system came into existence as a result of a pressure from a party that came to power by military force. But the revolution of 1956 smote this system very badly. The consequences of the revolution could not be effaced neither by the retribution that followed, neither by the latter reform attempt. The mistakes of the system were already visible. In the same time, from the second half of the 1960s, a few but significant changes occurred, that told the Hungarian economy apart from the other, classical communist systems. It is important to highlight, that these changes still remained within the framework of communism. They did not aim to change the system, but to reform it and make it operable.

The late 1960s was the time, when the resources started to drain in all communist countries. Therefore, in 1968, the reform of the economic mechanism was introduced in nowhere else, but Hungary. The first important step was the reformation of the agriculture. The government decided to finish the collection of all agricultural products. Farmers got the possibility to individually produce, in a small piece of land next to their households, and they were allowed to market the products. This increased the supply, and reduced somewhat the scarcity. The reform also meant that communist economy shifted from direct state guidance to indirect guidance. State owned firms got more latitude. But these were still only the circumstances of a “quasi” market. The essence of the system remained untouched by the reform.

It is also important to mention the consequences of the 1970s oil crisis on the Hungarian economy. The reaction of the Hungarian economical policy to the crisis was totally mistaken. The political power declared that the crisis is not going to reach Hungary; accordingly no conclusions were drawn from the world crisis regarding the Hungarian economic policy. The goals and methods did not change. In addition, many

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3 János Kornai: Paying the Bill for Goulash Communism: Hungarian Development and Macro Stabilization in a Political-Economy Perspective (1996) pg: 3-4
welfare payments were introduced, which raised illusion in the population and were not covered economically. Hungarian products lost value in the world market compared to other products. The deficits of the foreign trade balance and balance of payments increased rapidly. The Hungarian leadership worsened the situation by getting enrolled in credits from abroad. The country slowly got into a debt-spiral. By the end of the 1970s, Hungary was one of the countries with most debt per capita in the World.

By the 1980s the country was described by insolvency, it was on the border of a financial and economical collapse. This led to the restart of the reforms, and the correction of the economical policy. The most important actions made way for certain private initiations and private firms. Moreover, Hungary took a radical and very important step. Without asking the permission of the Soviet Union, and against the COMECON, Hungary applied to the IMF and to the World Bank, and became a member very soon.

This measure resulted in very different circumstances of the soviet system, and also in the strengthening of market elements. Hungary had more favoured institutional, organisational conditions to create a market economy. In the same time, the standstill of the political system and the high proportion of state property meant that Hungary was still going in the direction of debts, and break away from the developed world.

The communist system collapsed in Central-Eastern Europe not only because of the economical tensions, lack of balance, operational problems and growing social problems. The main and direct reasons of the transition were the weakening of the party state system, the changing of the political circumstances and the creation of the circumstances of a constitutional state. The creation of the market economy could only follow after. Thanks to the reforms of the earlier 2-3 decades and the use of external possibilities, the transition of Hungary was peaceful, smooth, fast, including the cooperation of all political and economical actors of the society. The most important measures that helped the transition were the changing of the one-tier banking system into a two-tier banking system in 1987, the introduction of a new tax system in 1989, and the approval of the new economical law, including an act about companies4.

According to János Kornai5, the transition in Central Eastern Europe had the further characteristics: First of all the changes aimed the direction of the West, both

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5 János Kornai: The Great Transformation of Central Eastern Europe: Success and Disappointment (Presentation on the 14th World Congress, 2005) pg: 11
economically, both politically: in the direction of capitalist economic system and of democracy. The transformation was complete both in the economical and both in the political sphere. The transition was not violent. The circumstances were peaceful; the changes were not forced on the society. The transformation was incredibly fast, the transition was completed within 10-15 years. The presence of all these characteristics during a transition is unique in world history.

However, the Hungarian society had high expectations in 1990\(^6\). They waited for a sudden rise from the transition. They had a big confidence in external aids; something similar to the Marshall-aid was awaited. They also hoped that the sovereign debt accumulated in the last few decades would be remitted or at least rescheduled. This illusion was fed by the fact that Hungary used to be the “happiest barrack of the communist camp”, so some kind of positively discriminatory treatment was anticipated from the West. But the reality did not and could not certify the illusion. Hungary had no choice but to attract the foreign investors somehow, instead of waiting for financial help, and also had to redeem its dept, at any costs.

3. Overview of the Development

After 1989, despite all the expectations of the people, the first years of the transition brought a deep and long-lasting recession to Hungary\(^7\). GDP fell, the loss of foreign trade accounted for about 23-24\%, industrial and also agricultural production decreased. On the other hand, there was a significant change in the structure of ownership; the number of private firms raised sharply, most of them as a continued development of the last system’s “second economy”. Apart from this, the main forms of black or hidden economy took shape. One kind of such businesses were the illegal business, with some kind of contact to the underworld, the other type were includes registered businesses that avoid paying taxes on most of their activity.

Next to the decrease in GDP, there were powerful inflationary effects caused by the liberalisation of trade and prices. The overall decline of the economy was coupled with a dramatic and very painful decrease in employment. There were also regional differences in unemployment that represented the historical territorial differences in standards and performance in Hungary. Also, the collapse of the COMECON and the insolvency followed by it in the Soviet countries, led to a very significant drop in export and import towards these countries. However, Hungary found new trading partners, so the overall drop in trade was not that shocking.

By 1994, the country was close to an economic collapse, caused partly by the transformational crisis, and partly by the mistaken economic policy pursed by the first freely elected government. This crisis was solved with the introduction of the extremely strict and unpopular stabilisation program, called the Bokros package. After this, the country was ready to apply for the European Union membership, and gain it in 2004. However, the pace of economic growth started to stagnate, due to both the recession in the World economy, and also to the mistaken economic policies of the Hungarian government.

In the next chapters I am going to analyse the development of 15 years in details.

4. Analysis of the Development

4.1 Output, productivity, employment

Following the logic of Blanchard\(^8\), I am going to analyse the basic economic variables for 5 transition countries: Hungary, Poland, the Czech Republic, the Slovakian Republic, and Bulgaria. In order to get the best comparison possible, Blanchard measures time from the beginning of transition in each country. I am following his example, taking 1990 as the first year of analysis for Hungary, Poland and Bulgaria, and 1991 for the Czech and Slovakian Republics. So in my following figures for Hungary, Poland and Bulgaria Year 0 means 1989 and Year 15 means 2004, while for the Czech Republic and Slovakia Year 0 refers to 1990, and Year 15 refers to 2005.

First I created a figure that shows the evolution of GDP for all 5 countries, calculated from the GDP values measured in million 1990 International Geary-Khamis dollars. The Geary-Khamis dollar is a hypothetical unit of currency. It is a perfect unit to make comparisons between countries and over time. 1990 Geary-Khamis dollar has the same purchasing power as the USD had in 1990.

![Figure 1. The evolution of GDP](image)

The figure shows a pattern of a decline of output right after the transition for both countries. All of the countries faced a sharp drop in GDP in the first years immediately

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\(^8\) Olivier Blanchard: The Economics of Post-Communist Transition (1997) pg: 1-20
after the transition took place. The Czech Republic started stagnation quite early, after the first year, and after that a slow recovery followed. Poland and the Slovak Republic reached the bottom of the recession in the second year and both of their GDPs started to increase at the same pace after. Poland, the Czech Republic, and the Slovak Republic reached the level of GDP that they had before the transition after 6 years. Hungary’s GDP, however decreased constantly until the 4th year, and reached the pre-transition level only after 11 years. Bulgaria showed the same pattern as Hungary until the 6th year after the transition, when a new recession occurred. In 2004, after 15 years, Bulgaria’s GDP was still only about 85 % of the pre-transition level. All the other countries managed to increase their level of GDP. Poland reached 145 %, Slovakia around 130 %, the Czech Republic and Hungary about 115 % of the GDP level before the transition.

The next variable to be analysed is the level of productivity. I examine the level of aggregate productivity for the same five countries: Hungary, Poland, Czech Republic, Slovak Republic and Bulgaria. The values of the figure are calculated from the labour productivity per person employed, measuring the GDP produced per person in 1990 Geary-Khamis dollars.

![Figure 2. The evolution of productivity](image)

We can detect a sudden fall in productivity after the transition and a large increase since then, in most of the cases. The productivity of Slovakia and Bulgaria started to increase after the first year. However, there was another decline in the Bulgarian productivity again after 6 years. Hungary and Poland experienced an increase in their
productivity after 2 years of falling numbers, and their development is stable since then. The surprise is the relatively bad performance of Czech Republic. The level of the Czech productivity only started to grow after 4 years. The initial fall in all of the countries can be explained by the drop in the sales. Beside that, the pre-transitional period was characterised by substantial labour hoarding. Eliminating this feature contributed to the improvement in productivity.

Now let us take a look at the figure of the evolution of employment. The figure shows the change in employment rate during the years.

**Figure 3. The evolution of employment**

All of the countries started the transition with a relatively high employment rate, around 50 % of the population worked. This was the result of an artificial labour hoarding. Unemployment was simply prohibited during communism. An unemployed person was not an effective member of the society, did not contributed to the “welfare”, so he was taken by the police. The governments made sure that everyone could find a job. The huge state- owned companies were perfect for that purpose. Naturally with the closing down of inefficient state-owned factories and firms, many people lost their jobs. We can see a drop in employment rate right after the transition, and the decrease lasted for 3 years in most of the cases. The slight rise that followed later could be due to the creation of private companies. The Czech Republic recovered the fastest. Its employment rate fell with only about 5 percent within 2 years, and then it started to stagnate and
increase slightly. Later on, another drop occurred. After 15 years the Czech employment rate was only 5 percent less than the pre-transition level. On the contrary, Hungary’s employment rate kept sinking until the 7th year after the transition, from 47 to 35 %. In 2004, the Hungarian employment rate was 39 %. None of the countries were able to reach the pre-transition employment level.

This pattern that can be seen both in the levels of GDP, productivity and employment, can be caused by several reasons. The factors behind the recession of the East-and Central European countries are the unfavourable trends in economic conditions abroad. First and foremost with the demise of the USSR and the collapse of the COMECON, these countries lost their old trade markets. The loss of the biggest trading partner, the Soviet Union caused a 40 % drop in all exports in the period from 1990-93 alone in Hungary. And this fact caused the investment in the national economy to fall by 23 % between 1989 and 1993. Before 1989 Hungary’s economy was dominated by inefficient industrial production. This was combined with a serious deficit in trade, which was an effect of a unique phenomenon: After losing the Soviet market, the government started to liberalize the border restrictions. Doing so, the export to OECD countries increased. And so did the imports. Since Hungarians were not allowed to travel freely to the West in the communism, they were very excited about crossing the borders, travel to Austria, and buy the interesting Western goods there, leaving big parts of their income in another countries economy. According to Boer-Ashworth’s figures, the trade deficit was about 91 billion US dollars in 1991. The collapse of the industrial production and the trade deficit together led to a large unemployment rate. The fact that some of the old production capacities were impossible to convert for use in other markets did not ease the circumstances.

Kornai describes this as a transformational recession. It is a result of a creative destruction that was needed after socialist system. The old system left such a distorted structure after itself, that it had to be destructed, and a new one had to be built. However, the destruction part is fast, but the creation part is slow and not that visible. So the balance of these two steps implied a deep recession.

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11 János Kornai: *Ten Years After „The Road to a Free Economy”*: *The Author’s Self-Evaluation* (2000) pg: 22
4.2 Restructuring and privatisation

Obviously the most important task of the transition was the privatisation, the restructuring of state firms, the creation of private sector. It was the fundamental base of creating transformation. Privatisation of the state firms brought the conditions of a gain orientated, competitive private companies, that are able to work efficiently, and are forced to development.

According to Blanchard\textsuperscript{12}, change in the structure of ownership and of organisation of their production was vital. He considers the following main problems with state firms: Due to the incentives of central planning, there were too large and too few state firms, which were too vertically integrated. Their products were of poor quality, the firms were characterised by high capital intensity, low technology, and they used too high inputs, especially labour. All these features led to the inefficiency of state firms. In Blanchard opinion the first task of transition was the restructuring of these inefficient firms. Product lines must be redefined, not needed plants should be closed, “labour hoarding” should be reduced, managers with no skills should be replaced, most of the capital, or at least most of the equipment should be replaced. He was also aware of that managers and workers would most likely oppose the changes. Furthermore restructuring requires large capital expenditures, which state firms cannot finance. So he draws the conclusion, which was confirmed by the practice, that state firms are unlikely to restructure\textsuperscript{13}. Conversely, outsiders would be motivated and able to restructure. There are 2 methods for this: direct sales and mass privatization. But the latter was only successful in the Czech Republic.

Kornai agrees with Blanchard. In his book from 1990, full of proposals regarding the transition, he argues that the state sector was large and inefficient at the beginning of the transition, and the small private sector was the healthy part of the economy, not fallen in crisis\textsuperscript{14}. It spontaneously spreaded, “like mushroom”, developing itself. According to him the private sector must be wholly and truly liberalized. Kornai suggests that in the process of privatisation the proportion of the private sector should be increased as fast as possible, until it accounts for the larger part of the countries GDP\textsuperscript{15}. In his opinion this can be achieved only through an organic process of development and social change.

\textsuperscript{12} Olivier Blanchard: \textit{The Economics of Post-Communist Transition} (1997) pg: 45-46
\textsuperscript{13} Olivier Blanchard: \textit{The Economics of Post-Communist Transition} (1997) pg: 77-80
\textsuperscript{14} János Kormai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 35-38
\textsuperscript{15} János Kormai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 80-93
According to him, members of the private sector should be given the chance to buy the wealth of the state sector in suitably separated parts, but it should not lead to the dismantling of huge, indivisible units. Hungary needs the cooperation of large, medium and small size enterprises and even people engaged in home industry. Different procedure of privatisation should be used for different size firms. The state property should be sold to private owners at real market prices by public auctions. An establishment of a credit construction related to the sale of state property to private owners is needed. Regarding the already existing practice of leasing out state assets to private individuals, rentals should be rational and realistic. This system can serve as the transition to sales. Part of Hungary’s state wealth can be sold to foreign investors, but only to the extent compatible with the nation’s interest. Kornai recommends the setting of an upper limit. For example South Korean government created an institutional and legal framework for regulating a similar process, by setting up a so-called Korea Funds, as the only channel through which foreigners could by Korean property. However, Kornai states that no limitations should be on FDI. He also reminds of that although the sale of state assets is a major source of income for the state budget, also the taxes should contribute to it in the same proportion. Furthermore, private sector has a big amount of accumulated money, savings, which causes inflationary pressure on the market. One way of pumping out this unspent money is the sale of state property. He mentions one flexible way of transformation: That is when a state-owned firms converts itself into a joined stock company and passes its shares into the hands of various owners. But it has to lead to a real privatisation of the firm. It would be a mistake if the managers would gain ownership too, because new owners should have free hands. Only a small proportion of the shares should be offered to the employees of the firm at a discount. There is a need for a dominant, individual shareholder or a small group of shareholders acquiring an appreciable stake in the firm, who have decisive say, who are willing to risk in order to an effective, direct ownership. Another important feature should be fully public marketing of state wealth. The framework for this should be laid down by law and a genuine business press should provide potential buyers and sellers with information. Concluding all the above suggestions, the privatisation’s first priority could not be speed.

Kornai wrote a paper, a self-evaluation 10 years after “The Road to a Free Economy” was published. In this study he evaluates his own proposals, and the economic
progress of Hungary. He believes that his recommendations regarding the reform of ownership were fundamentally correct\textsuperscript{16}.

He sets up 2 strategies of privatisation: The first strategy is named the \textit{“strategy of organic development”}, it emphasizes the healthy growth of private sector. According to this strategy, the development of private sector is characterised by mass de-novo entry, and it has to be helped. The basic technique of privatisation of state companies is sale. Also, the company must have a dominant owner, as mentioned above. The budget constraint on companies has to be hardened, in order to ensure the financial discipline essential to operating a market economy. Therefore, state-owned companies that provide chronic losses, should not be privatised at all costs, the budget constraint will help the process of natural selection amongst them. The profitable ones could be sold, and the ones that can not be sold, must have bankruptcy proceedings against themselves, instead of being given away. That strategy resulted in the birth of marketable and competitive private firms. Naturally this way of development, by necessity, collocates with the significant polarisation of profits and wealth. On the other hand this way helped the effects of free market competition to emerge.

The other strategy is referred to by Kornai as the \textit{“strategy of accelerated privatisation”}. In this strategy the emphasis is on eliminating state ownership as fast as possible. The main idea behind this method was that the wealth of the nation is a result of the 40 year-work of the whole society, so all participants should become an owner. The main method of privatisation is a kind of give-away, like a voucher system, where the property rights of the state companies are distributed freely and equally among the citizens of the country. They hoped that all workers, at least most of them would become an owner. But this is not what happened. Most of the people wanted simply to satisfy their consumption needs by selling the vouchers. This caused a huge oversupply on the gilt-edged market, leading to a decrease in the nominal value of the vouchers. These vouchers were bought up by members of the former political elite at a cheap price. Consequently they got ownership in the huge monopolies, keeping the former connection with the state. This method did not lead to formation of marketable and competitive private companies.

Hungary followed the first strategy, the one of organic development. Though misuses happened through the privatisation process, nonetheless many of them did not

\textsuperscript{16} János Kornai: \textit{Ten Years After „The Road to a Free Economy”: The Author’s Self-Evaluation} (2000) pg: 5-8
come to light. Apart from this fact, the economic development is described by Kornai as impressive\textsuperscript{17}. Hundred thousands of small- and medium-sized enterprises came into existence. The hardening of the budget, as well as the natural selection caused by it, helped to sweep out the state sector. This came together with a strengthening of the financial discipline, meaning that private contracts were complied, and the mutual debt chain amongst companies was broken. Also the consolidating of the banking sector started. All these facts contributed to the attraction of foreign investors and capital. The privatisation played an important role in the structural transformation of the communist economy, which was in a deep crisis. Despite of the problems connected to it, the Hungarian privatisation was the most remarkable result of the transition. Within a few years, 80\% of the former inefficient state firms got into private hands, and started to operate according to the laws of market economy.

Poland mainly followed the first strategy too; however some statements were made in favour of some elements of the second strategy as well. The success of Polish development is confessedly due to the dynamic “bottom-up” growth of the private sector, the inflow of foreign capital, and also to the successful macroeconomic stabilization process of course.

In the country that became the Czech Republic, at the beginning of the 1990s, the leaders chose to follow the second strategy, that of accelerated privatisation. Václav Klaus, the prime minister of Czech Republic, introduced a voucher system, which he later described as “rapid and efficient”. He also argued the adoption of this system internationally. His program was applied vigorously. There has been a lot of analysis why did this program not yield the expected results. After the assets were distributed among millions of voucher owners, they were concentrated again in investment funds. Nevertheless these funds were lack of capital strength that was needed to develop the backward companies or put in real investments. They amalgamated in large commercial banks, in which state-ownership were still dominant. This ownership structure was not able to build up strong corporate governance. This caused the whole restructuring process to wear on. The existing structure was conversed by choosing the second strategy. The performance of the Czech Republic was disappointing, and one of the main reasons for that was the following of the wrong restructuring strategy, among others. Russia also followed this unfortunate strategy.

\textsuperscript{17} János Kornai: \textit{Ten Years After „The Road to a Free Economy”: The Author’s Self-Evaluation} (2000) pg: 10-12
4.3 Foreign Direct Investment

It is well-known that foreign direct investments are an important source of external finance, and also had an important role in the transformation of the Central and Eastern European economies. As the article of Lansbury, Pain and Smidkova argues\textsuperscript{18}, FDI provides vital source of investment for modernising the industrial structure, improving infrastructure, and brings needed skills and technology to the target country. So no wonder, that transitional countries have been competing to attract the attention of foreign investors in order to get the advantages of such an investment\textsuperscript{19}. These investments can be of vital importance for the region as they equate the attraction of other suppliers, financial benefits, and creation of new jobs.

Let us take a look at the development of FDI in the examined countries. The figure shows the cumulative foreign direct investments in current US billion dollars from 1991 to 2004. According to the measures of Lansbury, Pain and Smidkova\textsuperscript{20}, at the beginning of the transition, in 1991 and 1992, Hungary received over half of the inflow of

\begin{figure} 
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{The inflow of FDI}
\end{figure}

\textsuperscript{19} Allen & Overy: \textit{Foreign Direct Investment in Central and Eastern Europe} (2006) pg: 2
investments among the Visegrád 4 countries (Hungary, Poland, Czech Republic and Slovakia). We can see on our figure, that Hungary definitely received more investments, than the other countries, until 1997. Later Poland, the Czech Republic and even Slovakia started to grow more rapidly, but still remained below Hungary in per capita terms. Bulgaria received significantly lower amount of investments during the years. This can be due to several reasons.

As Lansbury, Pain and Smidkova’s figures shows, there is a particular observed pattern of FDI: between 1988 and 1994, 70 % of foreign direct investments in transitional countries went into the Central European Countries. During that time Germany was the biggest investor in the area, the second biggest was Austria, which especially invested in Hungary and in the Czech Republic, and the third one was the USA. In 2004, this region plus the Baltic countries and Slovenia were the second most attractive foreign investment area after Western Europe, and the most favoured for manufacturing\textsuperscript{21}. Generally the determinants of FDI are political stability, access to large regional markets, human capital and long-term trading relations. In the case of transitional countries there are some risk factors that should be taken into consideration\textsuperscript{22}. These risks are due to the relatively unknown and unpredictable economic and social environment. Factors such as tax regime, structure of property rights, long-run level of exchange rates and the effect of market competition on newly privatised firms are particularly important. Also Allen and Overy agrees that with Lansbury, Pain and Smidkova’s in that the most important factors are when an investment decision is made are labour costs, tax rates and their stability, site availability and suitability, and investment incentives\textsuperscript{23}. So let us take a look at these factors in the examined countries.

Regarding tax incentives and legal frameworks\textsuperscript{24}, Central European countries provided a legal framework conducive to foreign investments, in contrary with other transition countries. These laws were implemented relatively early, in 1988 in Hungary and in 1991 in Poland and the Czech Republic. That was a big advantage for these countries. Potential investors were also offered various government incentives, like the establishment of special economic zones, which included some exemptions from custom duties. They were also offered special treatments regarding corporate taxes. However, in

\textsuperscript{21} Allen & Overy: \textit{Foreign Direct Investment in Central and Eastern Europe} (2006) pg: 3
\textsuperscript{23} Allen & Overy: \textit{Foreign Direct Investment in Central and Eastern Europe} (2006) pg: 3
1994, Hungary abolished tax holidays. If we would like to conclude the incentives provided in the different countries, we can refer to Allen and Overy again. In their study they find that the grant of incentives in the Czech Republic is very well structured. In Hungary there is no legislation that applies to the system of incentives. Available incentives are set out in a series of legislative instruments. Apart from that Hungary provides a wide selection of industrial parks, where investments can be implemented within a few months. Poland gives local advice, through which all the required information is available for foreign investors. Slovakia has the most unstructured approach regarding aids to foreign investors. This can be one of the main reasons why it did not receive as much FDI like the other Central European countries.

About macroeconomic stability, we can state, that it was relatively high in these Central European countries, compared to other Eastern European economies, like Bulgaria. Among our examined countries, the Czech stabilisation program was the most successful. Considering trade linkages, it is said, that investors prefer countries with relatively liberal trade regimes, preferably regions with wider free trade arguments. Also, geographically proximity is an important factor. The trade in the Visegrád countries started to re-orientate towards the European Union countries, after the transition. As I have already mentioned earlier, Hungary was the first of these countries to open towards the West, even before 1989. And if we look at the map, we can see that the Visegrád countries have a more favourable geographical position than for example Bulgaria. Potentially the major factor determining FDI, are labour costs. Wages in transitional countries were the lowest in Europe. According to Lansbury, Pain and Smidkova’s figures, in 1993, the estimated average monthly wage in Hungary was only one-ninth of the level in West-Germany. However, labour costs have been increasing steadily, and might soon reach EU norms, meaning that this factor will not be that attractive for foreign investors. Looking at the structural characteristics, like human capital, technology and economic infrastructure, we can say that back in the early 1990s, Central

27 Allen & Overy: Foreign Direct Investment in Central and Eastern Europe (2006) pg: 30
31 Allen & Overy: Foreign Direct Investment in Central and Eastern Europe (2006) pg: 3
European workers’ standard of qualification was broadly comparable to the level of West-European workers, and slightly better than the level in for example Bulgaria. The lack of infrastructure did not scare investors away. On the contrary, they were attracted by the possibility to upgrade e.g. rail roads and telecommunications in Poland. Moreover, strategically making an investment in a Central European country that as just gone through reforms and changes, and opened up new, large, growing markets to be loaded with Western goods, could help to beat competitors and secure a dominant market share. The other strategic reason of investing directly in a transitional country could be protecting the market share gained during the previous system and gain some incentives available for foreign investors.

It is also interesting to mention the finding of Allen and Overy, regarding the preferred target industries of FDIs. First, at the beginning of the 1990s, a move was made from traditional manufacturing towards service industry. Numerous banks, IT and telecom companies were created. In the late 1990s, early 2000s the attention moved back to manufacturing, e.g. automobile industry. For example Audi, Opel, Suzuki and Siemens created subsidies in Hungary that produced mostly for export purposes.

Even though the numbers of FDI inflows to the analysed countries are impressive, we can not forget that FDI is only one factor of the growth. As László Csaba argues, FDI played a very important, accelerating role in development. However, it is not enough by itself to secure constant growth. One of the main reasons for this is that capital not only flows in, but also flows out of a country. For example in Hungary between 2001 and 2004 some major Hungarian corporations started huge acquisitions in the neighbouring countries. He also argues that the level of FDI inflow to Central European countries will decrease as the markets are getting loaded, and finally reaches its pre-transition level.

4.4 Monetary policy

It was an obvious task for the newly elected government of Hungary in 1990, to start a stabilisation program. In his book written in 1990, Kornai argues that the “surgery” for stabilisation should begin on a stated date, and must be completed within a year of time. People of Hungary should be informed about the operations of the program,

33 Allen & Overy: Foreign Direct Investment in Central and Eastern Europe (2006) pg: 3
which must range hundreds of particular issues. The program was proposed to start immediately, as it happened in Poland, with a dramatic step in 1990, and also in the Czech Republic in 1991. However, the Hungarian government postponed the program, because they were afraid of taking unpopular measures. Only after the next election, and on the edge of financial collapse, was such a program introduced, in 1995. According to Kornai, and many other experts, it was a big mistake that had higher cost than a stabilisation program adopted right at the beginning of the transition.

Kornai discusses few components of the program. He emphasises the importance of the simultaneity of the measures during the stabilisation program. And also recommends that the stabilisation process should mainly rely on domestic resources, capacity, following a pessimistic and cautious plan.

The first important element was stopping inflation. As Kornai described it, most of the members of the government were not aware of the grave problem that inflation means. They handled it as a given and unchangeable condition. However, inflation is created by governments and political powers, furthermore by all participants of financial processes, so they can stop it as well. The fact that other transition countries suffered from high inflation too, cannot be an excuse for Hungary either.

According to Kornai, there are two main reasons why inflation is a serious problem. First of all it has a bad effect on the population, people watch their savings “melt away in their hands”. Inflation mercilessly affects primarily the poorest salary earners and the pensioners. Families can see that the money they earned with hard work simply looses its purchasing power. Pensioners watch their pensions diminish in a couple of years. Secondly inflation makes rational economic calculation impossible, and by doing so it is against the fundamental goals of the economic transformation.

Let us take a look of the changing of inflation in the examined countries during the years:

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36 János Kornai: *Ten Years After „The Road to a Free Economy”: The Author’s Self-Evaluation* (2000) pg: 20-21
38 János Kornai: *The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary* (1990) pg: 165
According to the data of OECD, Hungary, Poland, the Czech Republic and the Slovak Republic suffered from high inflation after the transition. Poland was in the worst situation. The country faced a hyperinflation of 567% right after the transition (see: Appendix). They managed to fight this extreme inflation, and they reached 76% in the next year. 15 years after the introduction of market economy, Poland managed to stabilise inflation, which became less, than 10%. Hungary had the second highest inflation, starting around 30% per year. Until 1995, Hungarian inflation decreased, but after the stabilisation program, it increased sharply again. The Czech and Slovak Republics suffered from a somewhat more modest inflation in the beginning. After 10 years all of the countries managed to cope with the inflation, and keep it under 10%.

The second element of the stabilisation program discussed by Kornai was the restoration of budgetary equilibrium. His opinion was that during the stabilisation operation, a budgetary balanced should be fully re-established using some dramatic measures. This was necessary, in order to stop inflation. Naturally public expenses should be cut, but they can not be cut ad infinitum. Certain budgetary expenses were simply necessary. There are only two items that should be eliminated from the budget, in Kornai’s opinion: the budgetary price subsidies of certain consumer goods and production subsidies (except transitional and initial support).

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But Kornai concentrated mainly on the income side of the budget. He proposed that
taxes should be increased to a level, where they cover the given expenses. However, he
was totally aware of the fact, that this measure would be unpopular, and therefore can be
considered as a politically wrong decision. Kornai described the Hungarian tax system at
the beginning of the transition as mistaken mix of “paternalistic redistribution of a
socialist economy, the fiscal impotence of a destitute Third World country, and the
refined progressive tax system of a Scandinavian welfare system”\textsuperscript{41}. The principals of a
new tax system needed to be systematically reconsidered. It was not easy in a country
with a low tax morality. However, in his book study written 10 years after he made his
proposals, he argues that a rapid raise of taxes could not be a solution\textsuperscript{42}. Lasting
improvement needs tax reform, with broader tax base, new taxes, and consistency.

The next important task, according to Kornai was to manage, to restrict macro
demand\textsuperscript{43}. This had to go along simultaneously with other measures. Like the
introduction and development of legal forms and institutions of commercial credit customary. Another such an issue of the stabilisation program was the issue of wages. The total amount of wages paid out in the state-owned sector should not exceed a certain limit, recorded in the program. Controlling of runaway wages was considered as vital.

The fourth challenge was the formation of rational prices\textsuperscript{44}. The price system at the
beginning of the transition could be described as irrational and arbitrary. This should be changed to a rational market prices system, with prices that carry meaningful economic information. This change had several conditions. All the prices should be allowed to move freely, without intervention of the government. This in itself is not enough, if the prices of the state sector are not rearranged. In order to reach market-clearing prices, the total liberalisation of prices was necessary, including the state sector too. Exceptions are public services, natural monopolies, etc. In Kornai’s opinion, liberalisation should lead to the development of basically uniform prices. However, nobody knew that time how long this would take.

\textsuperscript{41} János Kornai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 116
\textsuperscript{42} János Kornai: \textit{Ten Years After ,,The Road to a Free Economy”: The Author’s Self-Evaluation} (2000) pg: 23
\textsuperscript{43} János Kornai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 138-145
\textsuperscript{44} János Kornai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 145-154
Also a very important task was the introduction of a uniform exchange rate and convertibility\textsuperscript{45}. Kornai suggested the application of a uniform exchange rate. This had to be a market-clearing exchange rate, in order to prevent serious disproportions caused by exchange rate applied by the state banking system. Important task and requirements for stabilising the exchange rate were the controlling of the demand for hard currency, especially in the state sector; furthermore the state had to have adequate foreign currency reserves as well. In addition the Hungarian forint should become convertible and all import and export activities should be liberalised.

\textsuperscript{45} János Kornai: \textit{The Road to a Free Economy: Shifting from a Socialist System- The Example of Hungary} (1990) pg: 155-158
5. The Dilemmas of Today’s Hungarian Economic Policy

So far, I have discussed a number of issues, which were consequences of the structural crisis that followed the transformation from command to market economy. However, with the transition, Hungary faced some troubles, problems that needed a solution and could have been partly or wholly inevitable. In this chapter I am going to discuss these issues.

5.1 Agriculture

One very important factors of the stabilisation of the domestic market are agriculture and rural society. Apart from this, the agricultural sector provides the basis of living for one-third of the Hungarian population. Not to mention, that a significant proportion of Hungarian exports are raw and semi-processed food products. That is why the crisis of Hungarian agriculture is the deepest crisis in the Hungarian economy, and has not been solved even until today. There are many signs of this crisis. First of all, today’s agricultural output is still far behind the output of 1988. The other sign is the general lack of capital in the sector. The traditionally agricultural areas face high unemployment rate, social problems, and problems with financial surviving. And last, but not least, there are some grave difficulties in selling the agricultural products, often at a price that is lower than the production costs.

The loss of the Eastern markets played an important role in the agricultural crisis. It narrowed down the trading possibilities, but with a proper marketing activity new markets could have been gained, not mentioning the ex-soviet states, which are struggling with shortage of food products. However, the long-lasting deep crisis of the Hungarian agriculture is due to political, ideological reasons; moreover it can be traced back to the disarray of ownership relations, and production facilities.

As it is well-known, all the lands were collectivised under the communist regime, and big agricultural cooperative societies were created. These cooperative societies started to operate relatively well. Furthermore, collectivised agriculture in the late 1970s,

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1980s was generally described as an efficient and successful part of the Hungarian economy\textsuperscript{47}.

The starting point of the crisis was the conscious destroying and economic grounding of these co-ops. The privatisation of this area, with the use of compensation warrants, resulted in around 900 thousand farms with about the territory of 1-2 hectares, and without capital, machines, living stock, and due to the old age of the owners, without manpower. Rizov and Mathijs describe these farms as extended household gardens\textsuperscript{48}. The share of private land ownership became 85 \%, and only 15 \% remained in state ownership. The uncompetitive small plants have been supported and protected by the Land Act, since 1990. The Land Act states that the sale of Hungarian land to foreigners should be prohibited, and by doing so, it also prohibits cooperative and other societies to buy land. First of all, the renting of the land results in a more costly production. Secondly this prohibition avoids Hungarian agriculture to gain new, badly needed sources and capital. Thirdly, due to lack of buyers, Hungarian lands prices are fractions of the Westerns land prices.

\textbf{5.2 Health Care System}

As Erlich and Révész state in their book, the Hungarian population’s state of heath has been far from good. Mortality rate is relatively high, and average life expectancy at birth is low\textsuperscript{49}. According to the data of World Health Organization\textsuperscript{50}, the life expectancy in Hungary was 69 years for men, and 77 years for women even in 2005. These numbers for Poland are 71 and 79, for the Czech Republic are 73 and 79, for Slovakia are 70 and 78 and for Denmark are 76 and 80. Concluding this list, an average Hungarian will live less, than citizens of the other examined countries. Naturally there are some reasons for this connected with life style, but as Erlich and Révész argue it, Hungarian health service should also be blamed.

We can divide the problems into three parts\textsuperscript{51}. First of all, the Hungarian health care system inherited the problems of the communist period, like inefficient public health

\textsuperscript{47} Ray Abrahams: \textit{After Socialism: Land Reform and Social Change in Eastern Europe} (1996) pg: 52
\textsuperscript{50} www.who.int
\textsuperscript{51} Éva Orosz, Guy Ellena, Melitta Jakab: \textit{Reforming the Health Care System: The Unfinished Agenda} (Public Finance Reform During the Transition: The Experience of Hungary, 1998) pg: 223-227
policy, and the existence of gratitude money, which I would like to analyse later. Secondly, with the transformation of system, additional problems occurred; for example difficulties in resourcing and financiering. Thirdly, a health care reform introduced in 1993 resulted in the evasion of the new, strict financing rules, and false reporting.

As all of the governments that came on power after the transition admitted it, the Hungarian health care system needed restructuring and a general financing reform. Hungarian health care used to be free to everyone, as a part of the citizenship rights. Everyone agreed on that this feature should be kept. This fact caused the demand for health care to increase without limits, while the supply remained unchanged. However this is not the problem, but the lack of a complex reform and even a conception for a reform. Politicians always refrained at making steps that would touch the whole society and would be necessarily unpopular. There are many issues still waiting for a solution, like prevention, medical attendance of out-patients, the state of hospitals, and the order of financiering, principally the waging of doctors and nurses and the gratitude money, which causes huge disproportions in salaries. Unfortunately these objectives were always left out of sight when reform initiatives were created. Policy makers usually voted on satisfying short-term political requirements instead of making long-term strategic steps.

A compulsory health insurance was introduced in 1990, instead of tax-based funding, and the Health Insurance Found was established, however, the economically non-active part of the population was still not covered. Also, the Health Insurance Found was not provided with the conditions to gradually gain the power to act as a purchaser of services.

Regarding the financing of Hungarian health care, the total expenditure on health was 7.9 % of the GDP in 2004. This number has been starting to reach the Western European level, since during the communism, only about 4 % of the GDP was expended to health care. However, knowing that the level of GDP decreased sharply after the first year of transition, the Hungarian health care did not receive more money in real measures, than it did during the previous regime. But the 7.9 % of Hungary is still a bigger proportion, than the 6.2 % in Poland, the 7.3 % in the Czech Republic, and the 7.2 % in Slovakia. This measure was 8.6 % in Denmark in 2004. In Hungary there are 3 main

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52 Éva Orosz, Guy Ellena, Melitta Jakab: Reforming the Health Care System: The Unfinished Agenda (Public Finance Reform During the Transition: The Experience of Hungary, 1998) pg: 221
53 Éva Orosz, Guy Ellena, Melitta Jakab: Reforming the Health Care System: The Unfinished Agenda (Public Finance Reform During the Transition: The Experience of Hungary, 1998) pg: 228-230
54 www.who.int
ways for funding health care services. These are the social insurance contributions, collected from employers and employees; the general revenues from the budget; and we have to also mention the direct payments that are effected right from the pockets of the patients. This latter can be divided into two parts, the purchasing of medication and the already mentioned gratitude money. Among these 3 types of funding, the compulsory health insurance is relatively high, compared to other OECD countries. Although this insurance covers most of the health services, it is evident, that imposing such a high burden on the participants of the labour market results in the expanding of informal employment and the underreporting of earnings. Apart from the evasion of contribute payments, the Hungarian health insurance system faced increasing deficits also due to the diminish of active population, ill-defined revenue sources for non-active population groups, the too high expenditures connected to the insurance package, lack of autonomy for the Health Insurance Found, and the absence of appropriate medium-term planning.

Moreover, the financing of investments, and the management of capital assets have also been an unsolved puzzle. The concept regarding this issue lacks any economic rationality, and personal connections, lobbying power makes the most important role when an investment decision is made. Furthermore, the government puts an unbearable burden on the local authorities, which own the health care institutions. Another problem is that Hungarian health care system remained hospital-centered, while hospitals suffer from structural deformations.

All in all, we can say, that Hungarian health care has not been able to provide a cost-effective answer for the population’s needs. The main problem is that structure of financing health care. Money has not been targeted to the areas where it is needed the most, like preventing and screening; and health benefits could not have been gained this way.

56 Éva Orosz, Guy Ellena, Melitta Jakab: Reforming the Health Care System: The Unfinished Agenda (Public Finance Reform During the Transition: The Experience of Hungary, 1998) pg: 231-233
57 Éva Orosz, Guy Ellena, Melitta Jakab: Reforming the Health Care System: The Unfinished Agenda (Public Finance Reform During the Transition: The Experience of Hungary, 1998) pg: 233
Finally let me discuss the problem of the so-called gratitude money (or parasolvencia in Latin), following the article of János Kornai⁵⁹. This phenomenon is not unique to Hungary; it can be found e.g. in Romania and Poland as well.

Most of Hungary’s health care is provided by institutions in publicly owned hospitals and most cases in outpatients’ clinics. The doctors working at these places are either employed by the hospital or clinic, or they are formally self-employed, under a contract that resembles employment. They receive an official salary for their work. As I have already mentioned it, Hungarian citizens are entitled to free medical care by law. Still there is a phenomenon, called gratitude money, which refers to an envelope with a certain amount of money inside it, handled over from the patient to the doctor after the treatment. According to the regulations, the doctor is not entitled to a direct payment, so the practice of gratitude payment is illegal; the money earned like this is black money.

The presence of gratitude money in its current form can be traced back to the beginning of communism. Though it only started to flourish during the soft-dictatorship of Kádár. The health care system that time was still bureaucratic; patients were defenseless in the cruel administrative system. Gratitude payments resulted in more attention, and caring nursing. Doctors were in a similar situation, with payments restricted by the state. Like most intellectual activities, medical work was not well rewarded financially either.

This practice has a significant economic result. Gratitude money can be seen as a bribe. The patient is hoping for a better treatment, and the doctor plays the role of the rent-seeker. Gratitude payments are concealed earnings, there is no taxes paid after them. According to the survey of TÁRKI (a Hungarian research company) conducted in the year of 2000, the net income of doctors in average consisted of 38% of official income and 62% of gratitude payment in general. However, gratitude money can be a serious financial burden on a patient and on his or her family.

Beside the economic significance, it represents the area where public affairs are hidden from the public, personal relations are soiled, mutual confidence is undermined, and honesty is missing.

5.3 Higher Education

One very positive feature of communism was the education policy it practiced. Before the 2nd World War, Hungarian society was divided into two very sharply divided layers. The rich elite layer of society, and the other poor, working class layer that served the rich. Higher and even intermediate education was only available for children of the upper class. In communism this changed. Education became accessible to everyone and was free. It did not depend on the origins and family background of the persons anymore but on their will and abilities to receive higher education, and people used this possibility.

According to László Csaba60, this can be a reason for today’s labour problems. Participating in higher education, no matter what, is a national pattern. Young people sit in university benches for years, prolonging their studies, getting often more than one degree that often are of a little value when they would like to entry the labour market. Beside this, working while studying is not popular or widespread, not like in western societies. There is an overproduction of lawyers, business economists, communication specialists, engineers, sociologists, philosophers, teachers and IR specialists. This fact leads to long months spent waiting for a job opportunity, and often lower pay and less demanding jobs than their qualification should allow for. In his study of 200461, Csaba states that university graduates have to wait 9-15 months on average before they get their first job. This pattern can be observed with the other transition countries as well; Poland, Slovakia, and also Czech Republic have problems with unemployment that concerns mainly people with college and university degrees.

Another education related re-emerging problem is the question of tuition fee. From time to time, Hungarian governments try to introduce tuition fee for higher education and somehow turn educational institutions from state supported institutions to self-sufficient economical organisations. Or in contrary, to change the statistics of Hungary’s unemployment rate, they offer free education, so all those young people who were not able to find a job, can enroll themselves in an institution of higher education, and are no longer considered as unemployed persons, at least for another 4-5 years.

60 László Csaba: Social Change in Central and Eastern Europe: General Trends and National Patterns. (Presentation on the Conference: „Welfare States in Central and Eastern Europe”, 2006) pg: 10
However, the real problem is not the introduction or abolition of tuition fee. The problem is the constant avoiding the reform and the restructuring of the financing of higher education system.

Another problem is, according to Flabbi, Paternostro and Tiongson\textsuperscript{62}, that the education systems of transition countries have not adjusted to the new market economy environment. The focus is on memorising of factual and procedural knowledge, gaining skills that are suitable for command economy, but not for a practice-orientated market economy.

6. Crisis and Reform

In this chapter I would like to discuss the “costs” of transition, in other words the deep, structural and transformational crisis of Hungary, the reasons and the consequences of the crisis. I would also like to highlight the connections and correlations between the already analysed issues, covered in the first 2 chapters. After that, the exposition of the reform will follow.

6.1 The Costs of Transition

As I have already mentioned, the population of Hungary had to face relatively early a loss of illusion connected to the transition, and due to the default of huge, western aids, and the not releasing of the accumulated foreign debt. In the same time these irrational hopes were accompanied by the hypothesis that the artificially high employment rate, the sense of safety connected to this and the welfare system created with the help of foreign credits, which were all the characteristics of the communist era, could be sustainable. In fact, the majority of the people only realised after years that the transformation of the old institutional system and operation mechanisms can only be accomplished through a long period of time and big sacrifices. A transformational crisis necessarily goes together with the transition, and its effects cover every sector of the economy. Moreover, it affects the lifestyle of every member of the society63.

The transition resulted in the outcrop of the structural distortions of the Hungarian economy. During the decades of communism, the countries of COMECON made up a closed circle, closed away from the world economy, and by doing so, they were not inspired to compete, to reach a good performance, or to develop, especially from the technical, technological point of view. Within the COMECON every country was bounded by the central, planned orders, and hence were characterised by the term “lack economy”. The COMECON countries traded out-of-date goods between each other. Also, the economies of these states were dominated by industries (first of all by armaments industry) and investments that were in accordance with the goals, needs and artificially exaggerated demands of the soviet economy.

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63 András Blahó, László Halpern: Stabilisation, Crisis and Structural Change in Hungary (Industrial Restructuring and Trade Reorientation in Eastern Europe, 1995) pg: 149-150
With the collapse of communism and the break-up of COMECON, whole industries, and huge agricultural plants turned out to be worthless, from one day to another. The transformational crisis of transition coupled with a structural crisis.

What is more, the solution of the crisis and the adaptation to the world market were worsened by the conjunction and stagflation phenomena that characterised the countries of European Union and the developed world, at the beginning of the 1990s.

The costs of transition were basically consequences of the transformational and structural crisis, combined with the conjunctural problems. But these were culminated by economic-political mistakes, errors and faults that all could have been avoided.

Hereinafter I would like to sum up the already analysed facts, and get round to the factors that were both costs of and also reasons for the crisis escorting the transformation of the economy:

- As it has been discussed several times before, the crisis was a result of the termination of the COMECON. The elimination of this organisation was a condition for the long-run development of the ex-member countries. This step opened the doors for the World’s good and capital markets, and created the possibility of modernisation, technical and technological adaptation and the integration into the world economy.

However, on the short-run the collapse of COMECON meant that Hungary (among others) lost its former economical connections and markets, which absorbed its mainly uncompetitive industrial and agricultural products from world-market point of view. With the liquidation of the party-state system, all the contradictions and imbalances came to surface. The resource gap became general. Whole industrial sectors turned out to be redundant. With the transition the GDP fell significantly in all ex-communist countries. Investments, and accordingly the suitability for export decreased. This went hand in hand with mass unemployment, and an economic crisis, that led to the fall of the domestic consumption demand.

Since it affected all of the former COMECON countries, their foreign debts kept growing, and this caused the danger of insolvency. In this situation these countries rather used their spare currency frames for buying the most needed products from developed countries, instead of trading with each other. And also, they started to sell their spare goods in developed markets too. It follows that the economic connections between the former communist countries dropped, and Hungary lost the significant proportion of its
Eastern markets. It is worth mentioning, that the government also made intentional steps in order to cut back the traditional Eastern relationships, by political and ideological reasons. By doing so, Hungary yielded the ground for Western investors, which occupied these abandoned markets, and it will be very hard to get these markets back.

- The loss of Eastern markets was associated by the rapid decline of the domestic demand. These 2 factors can be the main reasons why did the Hungarian GDP drop 20 % within 3 years (See: Figure 1.). There are many complex evocative reasons for the decline of domestic demand.

First of all many of the state-owned industry giants, companies became unnecessary, when they were detached from the state budget. This applied especially to the armaments industry, mining facilities, the production of iron and steel and lastly to the very ineffective and costly coal production. Secondly, due to the loss of markets, not only the production of vehicles and machine industry had to be reduced radically, but also the production of consumption goods and that of the food industry. The drop of Hungarian GDP caused by these losses was not wholly and proportionally compensated by the new companies created of foreign capital. Thirdly, the accumulation ratio decreased critically, since the general resource gap cut back the accumulation possibilities. This led to the default of the necessary renewals, and the dropping demand of investment contributed to the decrease of the GDP. The 4th reason was the deterioration of living standards, the decline of real incomes. Naturally this contributed to the drop in consumption demand, which affected the change in GDP. Fifthly, it has the same effect, that due to the decreasing GDP the budget incomes kept decreasing too, as well as the social burdens on the state kept growing. For this reason, the infrastructural and other state investments had to be withheld.

- The following conclusion can be drawn from the above train of thoughts: The long-lasting mass unemployment was an inevitable consequence of the economical transformation. The Hungarian society was not prepared for this large-scale unemployment. In fact, the unemployment rate followed by the transition was not bigger than those of the EU countries. The problem was that the crisis mainly hit the industrial and agricultural plants, which were en masse employing unskilled workers. These peoples had no chances to get back to the labour markets without qualifications. On the other hand the elimination of the unnecessary industries was limited to certain, Eastern

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64 András Blahó, László Halpem: Stabilisation, Crisis and Structural Change in Hungary (Industrial Restructuring and Trade Reorientation in Eastern Europe, 1995) pg: 153-154
regions of the country. These regions have been facing an unemployment graver than in other places, causing serious social problems.

- This logically resulted in the existence of huge differences between given regions of the country, simplified between West and East. The country was almost torn into two parts.

- One of the most damaging and problematic phenomena of the transition was the accelerating inflation in the beginning of the 1990s⁶⁵ (See: Figure 5.). Of course the decline of the Hungarian Forint’s purchasing power was not newness. Due to the growing foreign debt, an inflationary spiral was present in the Hungarian economy since 1970s. But the transition created a new situation, from several points of view. First of all the resources of the budget decreased because of the drop in the GDP, and also because of the insolvency and bankruptcy of many state-owned companies. Secondly, due to the elimination of about 1-1.5 million workplaces within a short period of time combined with decreasing real wages, led to a diminishing domestic demand and consumption. And all these resulted in a drop or at least stagnation in the direct tax revenues, and also in the indirect taxes connected to the incomes. In the same time, because of the unemployment and the deteriorating living standards, the social burdens were growing.

In the evolving market economy it was not possible to continue with the old, typical practice of creating scarcity of goods and illegal black market with the use of administrative prices and uncovered state money creation, in order to bridge the deficit. In the circumstances of private economy, the budgetary deficit could only be financed with interest-bearing securities. However, this had disadvantageous consequences from 2 respects: Firstly, the guaranteed bonds drained the private and corporate savings from the risky investments, in other words, from the operation and development of the economy. Secondly, the redemption of the expiring securities and the interest payments connected to them necessitated the issue of more and more securities. So thus next to the foreign debt, also the inner debt kept accumulated in a fast pace, putting a more and more bigger burden on the state budget, increasing its deficit, tying up a bigger and bigger proportion of the GDP, and escalating further the inflationary pressure.

- The transformational and structural crisis accompanying the transition got also the two-tier banking system, created at the end of 1980s, in a difficult

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⁶⁵ András Blahó, László Halpern: Stabilisation, Crisis and Structural Change in Hungary (Industrial Restructuring and Trade Reorientation in Eastern Europe, 1995) pg: 153-155
situation. For the sake of the already discussed factors, like the drop in GDP, budgetary deficit and the accelerating inflation, the newly created commercial banks that were at this time also in state-ownership got into a financially unstable situation. When these commercial banks were created, the state decided about which companies’ current accounts would be transferred from the Hungarian National Bank to which commercial banks. However, the worsening situation of the economy, the growing financial problems and the problems with sales generated a chain of unpaid obligations and uncollectible debts, already in the 1980s. More and more companies had to face liquidity difficulties. In this situation, the - at the time still state-owned - commercial banks tried to help the companies with huge credits. But since after the transition, due to the loss of markets and the narrowing domestic demand, whole industries remained insolvent, the credits turned out to be uncollectible. It had the consequence that the biggest commercial banks, and in the same time the whole financial system of the country came to the edge of collapse. The consolidation of the banking system was urgent.

The consolidation of the banks started in the first governmental period, and evoked a big discontent from most of the population. People did not understand (and maybe still do not understand today), why did the state use hundreds of billions of Forints on the consolidation of the banks, while the volume of the production was decreasing, there was not enough capital to carry out new and remount investments, the social problems kept worsening, and hundreds of thousands were without job. But in fact, the stabilisation of the commercial banks could not be delayed. It was performed with the issue of securities, which the state used to buy off the claims of the commercial banks. However, this again helped the growth of the inner debt.

However, the most serious problem of the transition and at the same time the main reason for the exterior and inner deficit of the Hungarian economy was that the first government failed to draw the conclusions, mainly for political reasons, did not dare to undertake a complex stabilisation turn. Fearing the forfeit of the social support and the political power, the first democratically elected government recoiled from introducing any restricting measures. Even the next government was afraid of restructuring the state budget, in the beginnings. In 1993 and 1994 the economic policy of artificial growth

resurrected. As a consequence, the country got in the peril of insolvency and the total financial-economical collapse.

In order to being able to integrate into the European Union and gradually catch up to the developed World, Hungary had to eliminate the imbalance and implement a stabilisation reform.

6.2 The Bokros Austerity Package

In the previous section I have discussed the conflicts and contradictions of the Hungarian economic policy. The formation of market economy could not take place without losses and sacrifices. The transition was necessarily followed by a deep transformational and structural crisis. The population had to face the fact that the burdens of the radical change could not be transferred to others. People had to realize that these burdens had to be worn by the society. Even the policymakers should have realized that they could not postpone a complex reform any longer.

Due to this continuous delay of reform attempts, the Hungarian national economy got onto the edge of collapse by late 1994, beginning of 1995. There were many signs of this threatening danger:

- The deficit of the balance of payments was growing rapidly and became unmanageable. The Hungarian foreign debt increased with about 10 billions USD within two years. The pace of growth of indebtedness was intolerable. The situation threatened with the blocking of the borrowing possibilities.
- The other sign of the financial crisis was the dramatic increase in the budgetary deficit. Also because of the increasing of the interest burdens connected to the foreign debt, the deficit reached 9 % of the GDP in 1994. This amount was treble of the degree maximally allowed by the European Union only for recession periods.
- By reason of the rapid growth of the country’s imbalance, the international judgement of Hungary declined unusually, by 1995. One sign of this was that the IMF and the World Bank refused to sign the next contracts of stand-by credit. Another sign were the articles published in international journals, comparing the Hungarian situation to the Mexican financial failure of late 1994.
- The most warning sign of this mistrust connected to Hungary was that by 1995 the inflow of foreign capital practically stopped. Therefore the process of privatisation essentially became paralysed. As we could see on the 4. Figure of FDI
earlier, the cumulative amount of foreign direct investment for Hungary basically did not change between 1995 and 1996.

- Moreover, the insecurity and the mistrust in the society started to grow notably. Some private individuals and companies started to redraw their money, savings out from their non-resident accounts.
- And finally, due to the reasons and circumstances described above, there were no funds to finance the real income increase by 11%, as promised during the election campaigns of 1994.

As a consequence, the government had no choice but to introduce a turn in economic policy, in the spring of 1995. The government trusted Lajos Bokros, the new finance minister with the elaboration of a stabilisation program. Bokros with the help and support of György Surányi, newly appointed president of the Hungarian National Bank, prepared his idea of a package, consisting of 25 steps, within few days. The stabilisation program is still known as the Bokros-package and has been source of conflicts and arguments until today. However, the program that was announced on the 12th of March 1995 was necessary and inevitable.67

Even though the Bokros-package was not thoroughly prepared, it saved the country from a financial collapse. It also created the basis for a balanced, sustainable growth.

The main, prior goal of the stabilisation program was to improve the foreign and debt balance. As a starting point, every other aspects and efforts had to be subordinated to the prevention of the collapse. The package aimed to decrease the deficits of both the balance of payments and the state budget with radical measures, putting even the economic growth, as a long-term goal, aside. Another goal was to regain the trust of international organisations (IMF, World Bank) and of foreign capital. Only the realisation of these goals could create the necessary circumstances for restructuring the whole state budget, sustainable growth, fast economic development and for the admission in the European Union.

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The choice of instruments for the package was restricted by the fact, that Hungary did not have a long history of market economy. The government and the central bank used different kinds of instruments simultaneously.

We can rank the instruments of the Bokros package into two different, but still related groups:

The first group contained immediate arrangements, which had short-run effect, with the aim of warding the direct dangers of the economy off, decreasing the imbalance. These were meant to prepare and create the preconditions putting the national economy on the road of sustainable growth. The most important measures of this group were the followings:

- The introduction of the crawling peg devaluation of the Forint, first and immediately with 9 %, and then with amounts that were announced beforehand, calculable and kept pace with the inflation. Among the multiple purposes of this measure, we can find the correction of the competitiveness and export of Hungarian products and services, the limitation of import of foreign goods, and the stimulation of foreign capital inflow. This measure covered every area of the Hungarian economy, and is considered to be the most important and most effective step of the program.

- One temporary arrangement was the introduction of an import surcharge of 8 %. The goal was on the one hand to increase the income of the budget and by doing so decrease the deficit, and on the other hand to narrow the import of consumer goods. However, this measure was against the Europe Agreement, bound with the European Union, and which was based on liberated external relations. Consequently Hungary managed to get this measure accepted by the EU only for a limited period of 2 years. The role the measure of the import surcharge played in the stabilisation was very significant, even within this short period of time.

- Measures were introduced to increase the budgetary income from different sources, to radically decrease its expenditures, and to stop the increase of real wages and incomes, respectively. These measures hit the population the most and directly. It is quite understandable, that the decay of living standards going together with these radical steps, generated discontent among people. We can say that the effect of these tightening actions on the budgetary income was not in balance with the negative

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social effect, brought about by them. However steps that stroke the real wages and living standards of the population were inevitable. Since there were no other sources, the population had to bear the burdens of the economy’s stability.

There were 3 types of these inevitable arrangements: The first type was the temporary increasing tax of the personal income, and the changing of the VAT rate. Secondly, in order to decrease the expenditures of the budget, measures of staff reduction were introduced in rash, among public servants and public officials. Thirdly, the real wages of the employees were prevented from increasing with the help of direct state intervention, together with the prevention of the acceleration inflation. This resulted in a 16-17 % drop in real wages in 1995 and 1996, contrary to the 11% increase in 1994. These measures resulted in big indignations and strikes among the population.

The second group of measures of the Bokros austerity package was composed of measures aiming to make the population understand the necessity and the main directions of the reforming, changing the state budgetary system, which was familiar to them. The rationale behind these steps was that without the reform of the state budget and its subsystems (health care, education, social policy, pension system, etc) the sustainable growth and balance of the country could not be reached.

But, the elaboration of reforms requires long, profound and complex analysis, not to mention the gradually introduction of them. Naturally with the urgent, immediate preparation of the stabilisation program, there was not enough time for this. Instead, measures that were supposed to decrease the expenditures and stimulate the self-sufficiency of the society were introduced. However, even though these measures were reasonable, without proper preplanning and foundations they became source of social and political conflicts.

Some of these steps were:

- Measures that aimed the restructuring of child care allowance, and family policy, remained from the 1970s. According to the old system, everyone was entitled to receive family allowance, and maternity benefit and allowance. As a part of the stabilisation program, the grounds of civic right were replaced by the grounds of need. This measure has been attacked since then. In 1998, the new government restored the allowances for every citizen.

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With respect to the health care, instead of introducing a general reform of its restructuring and financing, the stabilisation program only introduced some measures, that were supposed to moderate the expenditures of the National Insurance and to make people realise that they had to contribute to certain health care services. For example, dental services ceased to be free and the budget subsidy on pharmaceuticals was reduced.

The introduction of tuition fee caused the same general troubles and indignation as the measures connected to health care.

In order to extend the period of active life, the general retiring age was increased.

Summing up, the unique steps of the Bokros package could not substitute or compensate a program of a state budget reform, conform to market economy. But it was perfectly suitable to confront the society with the reality, as a shock-therapy: the unsecured quasi-welfare system, the living from debts, which were very accustomed in the past decades, could not be continued.

6.3 The Results and Effects of the Bokros Austerity Package

The consequences of the 1995 economic policy turn in the first year only appeared in the macro economy. Thanks to the exceptionally strict steps, the dangers of financial failure and the isolation of the country were averted. Within a relatively short time, the conditions of a stable, sustainable growth were created.

In the same time, the actors of the economy, the households, companies and entrepreneurs, only sensed the burdens of these measures, which required serious sacrifices at the beginning.

The most important macro economic effects of the Bokros package were the below mentioned results:

The deficit of account of payments decreased with 50 % already in the first year, and kept decreasing continuously later on. Due to this change, the trust of international organisations and the international public opinion was restored. FDI started to inflow to the country again.

• Also the deficit of the state budget declined drastically. Soon it reached the 3% of the GDP, as it was specified by the European Union.

• The privatisation process that stopped at the end of 1994, beginning of 1995, restarted, moreover, it accelerated significantly. However, there was a sharp debate about foreign investors gaining strategically important plants.

• Even though everyone accepted it, the GDP did not fall because of the tightening actions, affecting the population and the companies hard. Naturally the fact, that private companies became dominant in the Hungarian economy, played an important role in this.

• As a sign of regained trust in Hungary, the IMF and the World Bank was ready to provide stand-by credit to the country again, already at the end of 1995. Another sign of the stability of the Hungarian economy was that the government did not have to resort to these credits. The next signal of the trust towards Hungary was that it became a member of the OECD, as the first post-communist country.

• And finally, maybe the most significant result of the stabilisation program was that the Hungarian Forint became convertible, from the January of 1997.

The facts that are described above are obvious proofs that the Bokros package was inevitably necessary. The stabilisation program provided demonstrable results within 2-3 years. Whereas, as I mentioned earlier the measures imposed serious and sometimes unnecessary, causeless burdens on the society. The gravest measure among them was the accelerated inflation that was around 30% in 1995. The inflation rate allowed in the European Union is between 1-3%. Another problem was that the change in the economic structure did not have the same effect in the different regions of the country, like the steps covering the real wages did not affect the different groups of the society in the same way either.

Maybe with a more thoroughly prepared concept and with the more carefully implementation of the program, the sacrifices would have been minor. Most of the problems and conflicts were caused by the not proper preplanning and the sudden, coup-like introduction of the program, after years of silence. A complex, comprehensive reform plan was absent.
Concluding the issue of the Bokros stabilisation program, it has divided both the public opinion, as well as the policy makers. However, the change in macroeconomic variables makes it obvious that despite the delays, mistakes and rush, the package had significant results. In the years after 1995, all of the variables of national economy kept changing in favourable directions. The basic goal, the durable, sustainable growth came true.

However, since the program was very controversial and followed by series of strikes, Bokros resigned in February 1996.
7. The World Economy Environment of Hungary

In this chapter I would like to discuss the power relations of the World economy, the processes of globalisation, regionalisation and integration, furthermore the tasks that Hungary had to fulfil in order to be accepted to join the European Union.

7.1 The Power Relations of the World Economy

The World’s power relations went through radical changes after the break-up of the Soviet Union and the European socialist systems, in the last decade of the 20th century. The World did not consist of two camps, crossing to each other anymore. Even though the USA is a super-power in military-political sense, and also in economic sense, there have been many centres evolving in the World apart from the USA, between 1990 and 2004.

Beyond doubt, the USA and the regions connected to it (Canada and the Central-Southern American region) is the centre of power with the most impact in the World. The USA was the engine of the conjuncture, characterising the second half of the 1990s. The impact of the United States was not reduced significantly even after the notable deceleration of the economic growth from the beginning of 2001 nor after the terrorist attacks of the 11th September 2001 and the following recession of the whole World economy.

The second region with growing power and role was the South-East Asian region, with Japan in its centre. The Japanese economy has a determinative power not only in the region, but in the whole World. This leading role is a result of a constant economic growth of the last decades, and of the prominent technical, technological development. This dynamical growth can be considered as a tension for other areas in the region. With the development of education and infrastructure, other countries of South-East Asia (like South-Korea, Thailand, Singapore, and Hong Kong) became capable to receive foreign capital and the modernisation of the economy. These countries took the advantage of this, and became a part of the developed World. Naturally we have to mention the countries that have just started to grow rapidly recently and soon will join the camp of power centres: China, Vietnam and India.

The third power centre of the World is the European Union that united 15 countries between 1995 and 2004. Even though the competitiveness of the EU grew rapidly since the 1970s, it still lags behind the USA in point of R&D for example. However, looking at the integration processes, EU is the number one. The member countries alone would not be able to hold ground in the ever pointing competition of the globalisation. Their elementary interest is integration, the economic amalgamation. Only this can provide competitive advantage for them. Like the admission was the only chance, the only alternative for countries like Hungary as well. In the same time, due to the difficulties of harmonising different financial and credit mechanisms, prices, incomes, business conditions, etc, the EU has more unfavourable conditions in the worldwide competition, than the uniform American or Japanese economies. Nevertheless, the European Union wishes to become the number one power centre, with the admission of new member states, and by suiting the challenges of the 21st century’s knowledge based society.

Finally, I would like to mention the post-communist countries, which are in a very peculiar position regarding the World power relations. The differences between the countries, which used to be basically uniform from economic point of view, have been growing rapidly. Hungary, Slovenia, the Czech Republic, Poland, Slovakia and the Baltic states were about to join the European Union, other countries like Romania and Bulgaria were on the road to market economy and the EU. The fate of the small countries that once built up Yugoslavia has been instable not only economically, but even politically since then. The economic restructuring of Russia and Ukraine was a task of the future. But we have to take two very important factors into consideration. First of all Russia remained an internationally very important country, as an exporter of raw materials, energy sources, as a huge potential market for goods and capital, and as well as a political power. Secondly, the countries of Central and Eastern-Europe remain important economic partners for each other, even after joining the EU.

7.2 Globalisation

Globalisation is a determining process of our age\textsuperscript{75}. It affects the relations of the World economy, and the economy, society of every country. Globalisation is an objective and total procession that has both negative and positive effects, and covers every aspects

of the society: economy, science, education, culture, politics, and even the tastes and consumption habits of the people. The most important characteristics of globalisation are the followings:

- In the corporate sphere, a new type of company emerged, the huge multinational and transnational company. These companies enmesh the whole World, and have a significant impact on certain countries’ economic policy.

- The big volume capital and monetary movements slowly eliminate the differences between international capital and monetary markets. The multinational investment companies and consultant organisations became the engine of the globalisation process.

- The globalisation goes hand in hand with the rapid development of technology, and especially of telecommunication and informatics. This fact in itself has an important role in the integration of the international relations.

- Globalisation is a basis and in the same time the cause of the elimination of barriers of trade, it enforces the equal conditions of competition and harmonisation.

- It makes the services and standards uniform and international.

- Basically globalisation changes people’s life, living conditions. As an effect of globalisation, qualifications, command of languages, communication skills rise in value. In the same time, the demand for unqualified workforce decreases.

Whereas, globalisation also caused many grave new problems that are sources of tension and conflicts:

- First of all, it limits the latitude of the states and economic policy. It forces them to give up a part of their national sovereignty, and to transfer some competences to supranational organisations.

- National economies become more open and also more defenceless to the events of the World economy. The instability and vulnerability of certain countries, industries and companies can grow.

- The production of money that is not connected to the real economy anymore, the international monetary markets, the fusion of stock exchanges makes the whole World economy act hectic. The crisis of one countries economy, stock exchange has its effect on every security market of the World, as a chain reaction.
Globalisation goes together with a growth of differences in incomes and migration problems. The internationalisation of the economy makes the consumption demands uniform, and leads to the degeneration of culture. Also criminality becomes international too.

Globalisation has a peculiar effect on the relatively moderately developed countries, like Hungary. Since Hungary is a small and densely populated country, the condition of development and of the operation of the economy is to open to the World and integrate into it. The above discussed dual effects of globalisation determine the main trends of the Hungarian economic policy.

First of all it assumes uniform conditions of operation for domestic and foreign companies, economic organisations; free flow of goods, capital, technology, know-how, human capital between the markets; a fiscal rigour and regulation that are in harmony with the requirements of the EU and other international organisations; adaptation to international monetary markets; gradually orientation to the international and principally to the EU environmental norms; and finally, consequent anti-inflationary policy, the narrowing of state budgetary deficit, the decrease of tax rates and in the same time the expansion of the group of taxpayers.

On the other hand, the new tasks of the state and economic policy are to create possibilities for those who are hit by the globalisation; to stimulate the modernisation of infrastructure; to pay extra attention to improvement of the competitive human capital, especially to education, research, health care, prevention of national culture; to provide necessary resources and mechanisms to stop environmental pollution, and to protect the environment; to make steps in order to prevent the additional growth in income differences, and to ease employment problems.

It follows from the above mentioned issues that in countries like Hungary, willing to catch up with the developed World, the roles of the state should be reconsidered. The role of redistribution of the state cannot be increased anymore, and the economic roles cannot be decreased.

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Summing up, the globalisation and the integration processes in the World changed fundamentally the operation conditions and possibilities of the Hungarian economy. However, Hungary has to face that the modernisation and the technological development based on globalisation would not solve the basic problems of society, tensions, and conflicts. It only puts them within new frameworks. Nevertheless, globalisation has no alternatives. Hungarian economy can only be successful, if it renders itself, its institutional system and in general the members of its society to adapt to the challenges of globalisation.

7.3 Regionalisation

While the international capital and monetary markets, multinational companies enmesh the World and the development of information technology connects distant parts of it, there are regions coming to existence that unite countries. Two directions of economic relationships dominate in the World.

Globalisation is also a process of localisation. The countries of the World expect the rise of their competitiveness and the securing of their positions from integrating into economic regions. They do this not against globalisation, but in order to exploit its advantages. Countries being in a direct relationship with each other, decide to unite their resources, as a natural reflect to the challenges of globalisation.

This is especially valid for the countries of the European Union. This area consists mainly of countries with developed economy, highly qualified human capital, and very different consumption and production habits and demands. The member states have a domestic market relatively narrow for their capacity. These countries, just like the countries that were applying for membership before 2004, including Hungary, could only be able to hold ground in the world wide competition as a part of a big, regional unit. The European Union is the strongest integrated regional unit of the World. The enlargement of the EU with 10 new members in 2004 was for its own interest as well. The European Union needed the new members to increase the resources, to make a rise in the markets of good, capital and workforce. On the other hand, the old contacts of the new members on the area of the ex Soviet Union meant new, unexploited possibilities.

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Naturally, in order to stand ground in the World of globalisation and to create the conditions of an enlargement, the EU had to solve some difficult economic and institutional problems, like an institutional reform, the creation of a Monetary Union, unemployment, migration. Regional policy measures had to develop. Between 1989 and 1997 number of structural funding instruments were developed to provide financial aid for the new members between 2000 and 2006.

### 7.4 Hungary and the European Union

In the 1990s and the first years after 2000, the most important task of the European Union was the “Eastern Enlargement”, the admission of the new, applying members and their gradual integration into the Union. The admission decisions depended not only on the inner reform of the EU but also on the fulfilment of the requirements by the applying countries, furthermore the problems connected to them. Let me specialise these problems:

- The European Union had to find and provide additional resources for the new member states and in order to extend the budget, since the applying countries had less GDP per capita than the EU average. According to Bache and George, countries from Central and Eastern Europe had an average GDP per capita typically around one third of the EU average. These countries expect a bigger financial support from the EU than their contributions, so they can catch up with the more developed countries.

- Some old member countries were afraid of opening their labour markets for the workforce of the new applying countries. They feared the possibility of mass migration from less developed countries to their economy, and by doing so endangering the work possibilities of local citizens. Even though the practice of previous admissions, like in the case of Greece, Portugal and Spain did not verify these fears, the applying countries had no choice but to accept a moratorium that temporarily banned the free movement of workers for 5-10 years. In the case of Hungary the moratorium was 7 years and the individual member countries could shorten this time period if they decided to.

---

Another criterion of the admission of new members was an environmental management and environmental protection uniform with the EU norms. The environmental situation of Hungary was far behind these norms. The previous regime did not pay attention to the protection of the environment and put emphasis on heavy industry, all the rivers of Hungary arrive already polluted from other countries, and the problem of waste disposal has not been solved. Solving these problems needed 15-20 years, and it should be an extremely huge capital investment. The European Union contributed to the cause with some support even before the admission of Hungary.

A very difficult but inevitable task of Hungary was solving the crisis of the agriculture, and a launching of a modernisation process. The fact that the reform of the Common Agricultural Policy is one of the problems most difficult to solve in the EU\textsuperscript{82}, did not make it easier for the applying countries. The biggest proportion of the budget is spent on the agricultural sector that suffers from over-production and sales problems. The price-support system of the EU needs a reform. Compared to this, the state of agriculture in the applying countries was a greater problem.

The crisis of Hungarian agriculture appears in the anarchical ownership relations, in the low outputs, in the not suitable processing of the products, in the number of small plants, in the lack of machinery, living stock and capital. This agriculture was not ready for the competition of the EU, despite the favourable natural circumstances. However, in spite of all the problems, Hungarian agriculture still had a very important role in the national economy. One indicator of this statement is that between 1990 and 2004, agriculture made the living for 2-3 times more people than the EU average.

In order to solve the agricultural crisis Hungary had to make few very important steps. First of all the relations of land ownership should be disposed by law. A rental system should be created. And last but not least, the subsidisation of the agriculture should be reformed.

Among the admission requirements the reduction of the budgetary deficit and of inflation had a significant role. The EU norm maximises the allowed budgetary deficit at 3% of the GDP. Regarding inflation, the goal was to press it under 5%. This was not easy, because due to the integration process, the free flow of goods and services, the prices were about to increase to the EU level.

• The next very relevant requirement was to harmonise the Hungarian legal system with the law and order of the European Union. A basic criterion is the emergence of EU norms regarding human rights and democratic public life. This process started in Hungary right after the transition.

• Also the public administration had to suit the administration system of the EU. To reach this and also the Union subsidies, Hungary has to create regions that compose economic, cultural and administrative units, instead of the old municipality system. This is required in order to receive structural funds.

• The consequent provision of terms of competition was another requirement. In order to fulfil this criterion, Hungary had to increase its competitiveness.

• The education and qualification system needed to be developed as well, just like the stimulation of research.

• To be able to take the advantages of the admission to the European Union, Hungary had to radically develop its infrastructure.

Hungary, together with other 9 applying countries was able to roughly fulfil these requirements, and became a member of the European Union on the 1st May 2004. 15 years was enough to change the political and economic structures. From this point of view, the transition was completed. But it is a much more complicated and longer process to change the way of thinking, habits, beliefs, expectations and values of people.
8. Conclusion

The last decade of the 20th century brought radical changes to the Hungarian economy and in general to the whole country and in a bigger perspective to the whole group of the post-communist Central and Eastern-European countries.

The transition was completed within 15 years. The Hungarian economy became an open, Western economy, connected to the rest of the World. During the period of consolidation a deep structural change and an adjustment, a stabilisation program materialised. The country went through a deep transformational and structural crisis during the transition, and it resulted in a modern national economy, ready for the integration into the European Union. This came together with mainly necessary sacrifices that the society, the majority of the people had to suffer, but in the same time these sacrifices created the long-run conditions for catching up. Among others the catching up in development to Western Europe started, the possibility of improving living standards was created, a goal of eliminating wide income gaps and wealth differences could be set up, and the development of underprivileged regions could be started.

As the result of the radical changes in the Hungarian economy, private companies became dominant in the economy; the legal, economic and organisational terms of a modern market economy were created; competition became a significant factor of the economy; the integration into the globalising World and the European Union started; due to the stabilisation program the danger of financial collapse was eliminated, and Hungary stepped on to the road of sustainable growth; and finally the Hungarian economy started to operate in an autonomous way, without governmental intervention.

However, after 1998, the performance of the economy did not meet its possibilities, potentials. It was due to the 2001 recession of the World economy, but also due to mistaken economic policy steps. From 2001 the pace of economic growth has been gradually decreasing. To solve this problem, a more consequent economic policy is needed. The tax-system needs a reform, in order to stimulate savings and improve competitiveness. Development of education and training is necessary, so a well-prepared source of workforce can materialise. The fallen behind regions should catch up with the more developed regions. The complex reform of health care and agriculture cannot be postponed any longer. Also the acceleration of environmental protection investments is much needed.
The future of the Hungarian economy and the whole country depends on the integration into the EU, the relations with the globalising World, and its competitiveness. If Hungary cannot improve its competitiveness, the consequence can only be lagging behind, even as an EU member state. One condition of improving competitiveness is the elimination of differences, asymmetries between the economic sectors and geographical regions.

In my opinion, Hungary has at least two comparative advantages that can be developed in order to catch up with the developed World. One is the favourable geographical position of the country, at the junction of important West-East and North-South roads. It means a specific transit role to the country that requires a high level of infrastructure. With the development of the infrastructure and proper marketing activities, Hungary can become an important commercial and financial centre. The second advantage is the Hungarian human capital. Hungary has a high level of education, which is still competitive in the European market, because it is based on extensive natural and social sciences. Also, the education of foreign languages has been improving, and Hungary has numerous well-educated IT experts.

Naturally the most important tasks are the elaboration and completion of different reforms that I have already mentioned. Unfortunately there are some parliamentary and political problems connected to them. In order not to become unpopular, and by doing so being able to win the next elections as well, governments keep postponing necessary reforms and measures. They are also able to win the support of the people by giving false and economically not feasible promises during election campaigns. In my opinion, the population should be better informed. An education of basic macro-economics should be introduced in the schools, so people can become responsible voters, and will not be deceived by empty promises.
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Appendix
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Appendix 2. Gross Domestic Product in millions of 1990 US GK PPP

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year 0 = year before, Total GDP in Millions of 1990 US (Geary Khamis PPP)

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
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*year 0 = year before transition, GDP in Levels of 1990 = 1.0*

*Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008*
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<td>26.609</td>
</tr>
</tbody>
</table>

GDP per Person Employed, in 1990 GK $

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
### Appendix 5. Evolution of productivity

<table>
<thead>
<tr>
<th>Years After Transition / Country</th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovak Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>0.949089</td>
<td>0.916511</td>
<td>0.951115</td>
<td>0.943235</td>
<td>0.927756</td>
</tr>
<tr>
<td>2</td>
<td>0.999332</td>
<td>0.899543</td>
<td>0.894022</td>
<td>0.931657</td>
<td>0.983796</td>
</tr>
<tr>
<td>3</td>
<td>1.009087</td>
<td>0.901847</td>
<td>0.956415</td>
<td>0.997374</td>
<td>1.003049</td>
</tr>
<tr>
<td>4</td>
<td>1.010176</td>
<td>0.911904</td>
<td>1.024818</td>
<td>1.059677</td>
<td>1.084369</td>
</tr>
<tr>
<td>5</td>
<td>1.022173</td>
<td>0.959078</td>
<td>1.09</td>
<td>1.122698</td>
<td>1.145556</td>
</tr>
<tr>
<td>6</td>
<td>1.038435</td>
<td>0.988678</td>
<td>1.116565</td>
<td>1.190532</td>
<td>1.200013</td>
</tr>
<tr>
<td>7</td>
<td>0.939821</td>
<td>0.979567</td>
<td>1.136958</td>
<td>1.251371</td>
<td>1.281953</td>
</tr>
<tr>
<td>8</td>
<td>0.923647</td>
<td>0.987307</td>
<td>1.186568</td>
<td>1.320876</td>
<td>1.335497</td>
</tr>
<tr>
<td>9</td>
<td>0.961904</td>
<td>1.036113</td>
<td>1.222881</td>
<td>1.371607</td>
<td>1.37477</td>
</tr>
<tr>
<td>10</td>
<td>1.004721</td>
<td>1.075866</td>
<td>1.231733</td>
<td>1.492688</td>
<td>1.412049</td>
</tr>
<tr>
<td>11</td>
<td>1.009524</td>
<td>1.097185</td>
<td>1.279655</td>
<td>1.581276</td>
<td>1.449016</td>
</tr>
<tr>
<td>12</td>
<td>1.058489</td>
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<td>1.328309</td>
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<td>1.507927</td>
</tr>
<tr>
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<td>1.167682</td>
<td>1.385675</td>
<td>1.712023</td>
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</tr>
<tr>
<td>14</td>
<td>1.125744</td>
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<td>1.425419</td>
<td>1.798568</td>
<td>1.641218</td>
</tr>
<tr>
<td>15</td>
<td>1.170227</td>
<td>1.274043</td>
<td>1.504038</td>
<td>1.871201</td>
<td>1.716912</td>
</tr>
</tbody>
</table>

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
## Appendix 6. Employment

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovak Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>46,06%</td>
<td>50,26%</td>
<td>46,17%</td>
<td>44,39%</td>
<td>50,09%</td>
</tr>
<tr>
<td>1991</td>
<td>40,63%</td>
<td>48,49%</td>
<td>43,31%</td>
<td>41,64%</td>
<td>45,94%</td>
</tr>
<tr>
<td>1992</td>
<td>37,81%</td>
<td>49,10%</td>
<td>39,30%</td>
<td>39,75%</td>
<td>40,39%</td>
</tr>
<tr>
<td>1993</td>
<td>38,17%</td>
<td>48,96%</td>
<td>36,54%</td>
<td>38,72%</td>
<td>40,21%</td>
</tr>
<tr>
<td>1994</td>
<td>38,81%</td>
<td>49,48%</td>
<td>35,42%</td>
<td>38,40%</td>
<td>39,34%</td>
</tr>
<tr>
<td>1995</td>
<td>39,76%</td>
<td>49,87%</td>
<td>35,15%</td>
<td>38,68%</td>
<td>39,30%</td>
</tr>
<tr>
<td>1996</td>
<td>40,26%</td>
<td>50,38%</td>
<td>35,05%</td>
<td>39,06%</td>
<td>40,03%</td>
</tr>
<tr>
<td>1997</td>
<td>39,14%</td>
<td>50,53%</td>
<td>35,22%</td>
<td>39,60%</td>
<td>39,55%</td>
</tr>
<tr>
<td>1998</td>
<td>39,55%</td>
<td>49,80%</td>
<td>35,95%</td>
<td>40,02%</td>
<td>39,31%</td>
</tr>
<tr>
<td>1999</td>
<td>39,12%</td>
<td>48,14%</td>
<td>37,32%</td>
<td>38,44%</td>
<td>38,27%</td>
</tr>
<tr>
<td>2000</td>
<td>41,43%</td>
<td>48,10%</td>
<td>37,92%</td>
<td>37,82%</td>
<td>37,50%</td>
</tr>
<tr>
<td>2001</td>
<td>41,55%</td>
<td>48,36%</td>
<td>38,12%</td>
<td>36,97%</td>
<td>37,69%</td>
</tr>
<tr>
<td>2002</td>
<td>42,05%</td>
<td>48,66%</td>
<td>38,24%</td>
<td>35,85%</td>
<td>37,67%</td>
</tr>
<tr>
<td>2003</td>
<td>43,71%</td>
<td>48,02%</td>
<td>38,83%</td>
<td>35,45%</td>
<td>38,03%</td>
</tr>
<tr>
<td>2004</td>
<td>45,26%</td>
<td>48,21%</td>
<td>38,66%</td>
<td>35,91%</td>
<td>37,91%</td>
</tr>
</tbody>
</table>

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008
Appendix 7. Inflation

<table>
<thead>
<tr>
<th>Change of consumer prices</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>28.37</td>
<td>34.82</td>
<td>23.66</td>
<td>22.46</td>
<td>18.87</td>
<td>28.31</td>
<td>23.47</td>
<td>18.31</td>
<td>14.15</td>
<td>10.00</td>
<td>9.80</td>
<td>9.12</td>
<td>5.27</td>
<td>4.66</td>
<td>6.74</td>
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<tr>
<td>Poland</td>
<td>567.88</td>
<td>76.77</td>
<td>46.10</td>
<td>36.96</td>
<td>32.99</td>
<td>27.95</td>
<td>19.79</td>
<td>14.91</td>
<td>11.60</td>
<td>7.15</td>
<td>9.90</td>
<td>5.41</td>
<td>1.91</td>
<td>0.68</td>
<td>3.38</td>
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<tr>
<td>Czech Rep.</td>
<td>11.09</td>
<td>20.81</td>
<td>10.04</td>
<td>9.12</td>
<td>8.78</td>
<td>8.45</td>
<td>10.68</td>
<td>2.11</td>
<td>3.91</td>
<td>4.75</td>
<td>1.82</td>
<td>0.11</td>
<td>2.80</td>
<td>1.88</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2.70</td>
<td>4.09</td>
<td>5.08</td>
<td>4.43</td>
<td>2.74</td>
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<td>1.45</td>
<td>1.88</td>
<td>0.94</td>
<td>0.57</td>
<td>1.47</td>
<td>1.98</td>
<td>1.37</td>
<td>1.05</td>
<td>1.67</td>
</tr>
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</table>

Source: www.oecd.org/statistics/