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THE BALANCE OF ECONOMIC TRANSITION IN HUNGARY (1988-1998)

ABSTRACT

Economic transition in Hungary was coupled by the adoption of the "Companies Act" in October 1988, which made it possible to state enterprises to convert themselves either into private company or public limited liability company. This led to the collapse of the socialised sector and paved the way towards the creation of a free market economy. Liberalisation programme started on 1 January 1989, which abolished all restrictions on wages and prices. Measures were also introduced for liberalising import.

The first wave of privatization was uncontrolled, which was placed under the direct supervision of the state in the autumn of 1990 by the government coalition of the Hungarian Democratic Forum. The main objective of the conservative cabinet was to promote the emergence of a new Hungarian entrepreneur stratum. From 1994 privatization strategy changed under the Social-Liberal government, which encouraged bigger participation of foreign investors in the process and the simplification of sale procedure.

As result of economic transition both the industrial and agricultural production declined, whereas unemployment rate rose to more than 12 percent in 1993. Because of unfavourable external conditions (the collapse of Comecon) the Hungarian economy was hit by depression. Another negative outcome of the transformation process was that gross government debt and inflation rose to an unprecedented level.

The objective of my study is to evaluate the impacts of economic transition in Hungary between 1988 and 1998. I will focus on analysing the process

of privatization and the macroeconomic consequences of the change of regime. Because of length constraints, I will not highlight the changes made in the political system after 1990.

Keynotes: economic transition, change of regime, economic history, Hungary, deregulation and privatization

1. Introduction

The state socialist regime in Hungary had to face both of legitimation and economic crisis by the end of the 1980s. The Communist leadership acknowledged that it had to abandon the principle of maintaining full employment and decided to privatise the fixed state assets, which were in state hands in order to increase productivity in the long run. The transition process in Hungary was achieved by peaceful means. There were a number of common problems that the post-communist regime had to tackle, which were necessary to create a free market economy: first, macroeconomic stabilisation was essential to stop inflation and curb huge budget deficit. At the same time the high external indebtedness of the country had to halt in order to achieve a surplus in foreign trade and equilibrium in the balance of payments.[1] Second, the formerly state-owned assets had to marketized and privatised. The latter required to abolish all the restrictive regulations, which distorted the price system and competition. The third crucial task was to restructure the entire economy and reintegrate into the world markets. Finally, as a result of the dissolution of CMEA-market, Hungary had to reorient its trade and was forced to enter the world market and compete with advanced industrialised countries.[2] Hungary also became part of the open world market after 1990, which required an adjustment to changed external circumstances.[3] These challenges presumed common efforts by all political forces during the period of the regime change.

2. The peculiarities of economic transformation in Hungary. Liberalisation and privatisation in the 1990s

After the free and democratic parliamentary elections of 25th March and 8th April 1990, which were won by the Hungarian Democratic Forum (MDF)[4] all political parties – the government and the opposition included – agreed on the creation of a free enterprise market economy.

The new coalition government led by József Antall inherited a declining and bankrupt economy. The situation was characterised by stagnation, a drop in GNP and a deterioration in the standard of living. Macroeconomic imbalances became apparent in the early 1980s: consumer prices started to increase significantly, which were fuelled by fiscal deficits. The need to repay external debt was a serious burden on the national economy. Despite the reformist outlook during 1989 the debt service of Hungary amounted to 42 percent of hard currency export earnings.[5]

In compliance with the road of "gradualism", a market price system was completed in the period 1989-91. Subsidies were mostly abolished for industrial and agricultural products and were substantially reduced for services. Marketisation was accompanied by import liberalisation between 1989 and 1991: respectively 36, 60 and then 86 percent of imports were liberalised during three years.[6] State trading monopolies and other restrictions (tariffs and quotas) on trade were quickly lifted in order to promote the free flow of goods and capital. Reform-oriented Hungary, which joined GATT in 1973 had already decreased its tariff level from the original 32 percent to 16 percent during the 1980s. In 1991, tariffs were reduced to 13 percent and to 8 percent after the Uruguay Round (1994). In 1989, only 15 percent of domestic production was exposed to import competition, which increased to 33 percent in 1990. As a consequence of this process, in the mid-1990s, 60 percent of Hungarian exports went to liberalised market. This share was not far behind the West European proportion of about 75 percent.[7]

The transformation of the Hungarian banking system had already started before the change of regime. The monopoly of the Central Bank of Hungary as the single creditor was completely eliminated in 1987, and thirty-six commercial banks were operating in the country by the end of 1991. Building democracy required the modification of the status of the Central Bank of Hungary to guarantee its independence. The 1991 law covering the Central Bank re-established the bank's autonomy from the government and from direct political influence. This regulation was similar to the European and international practice. The role of middle- and small-scale banks increased rapidly in the country.[8]

One of the key elements of the transformation was the privatisation of state-owned assets. The coalition government led by the Hungarian Democratic Forum put an end to the impromptu sales of enterprises that were going on in the 1980s and introduced state-directed privatisation. In the autumn of 1990, the State Property Agency was entrusted to control the whole process, which was placed under the direct supervision of the cabinet. It successfully managed the marketization of 20 large enterprises. The Antall-Boross coalition government set as a fundamental guideline for judging the merits of competing bids to purchase any state asset that preference should be given to domestic investors. The main goal was to stimulate the emergence of a new, relatively broad stratum of Hungarian entrepreneur-proprietors. A range of credit facilities was worked out to promote this process and a deliberate effort was made to structure privatisations as cheaply as possible, rather than aim at maximising revenues from asset sell-offs. The net result was that the programme made slow progress, with no more than around HUF 310 billion of assets being sold up till May 1994.[9] According to Aldcroft and Morewood when the Hungarian Democratic Forum came to power in June 1990, it originally planned to privatise half the state sector during its four-year term in office. After a promising start, it turned out that this ambitious target could not be achieved. In 1989 there were about 2000 state-owned companies of which, by September 1993, 273 had been sold outright, while the majority shareholdings were disposed of in 144 cases and minorities in 71 others. A further 370 enterprises disappeared as a result of liquidation. By 1993 an estimated 36 percent of the labour force was employed in the private sector.[10]

Privatisation differed in most of Central and Eastern European countries. In Czechoslovakia and Poland, the whole process was based on a voucher scheme. This meant that each adult citizen was offered investment vouchers in order to buy shares of state companies at the stock exchange. Botos stressed that due to the low level of net savings in the Hungarian society, there was no free capital for purchases through privatisation. Therefore, Hungary chose the practice of cash sales. It was originally planned that state property would change only its form and productive capital would turn into money capital that could be used to stimulate economy by the state or reduce its debt. Because the bulk of Hungarian state debt was in foreign exchange, hard currency export earnings were crucial to fulfil payment obligations.[11]

The issue of compensation for those whose property had been expropriated by the state, mainly from 1948 to 1959 was linked to the whole privatisation process, which caused a sharp debate both amongst the parties and the public at large, during 1990-92. The Smallholders' Party insisted on launching a reprivatisation programme in the agriculture to restore landownership to its position just after the 1945 land reform. This initiative was rejected by FIDESZ and the Socialists because they were in favour of utilising the revenues from privatisation purely to reduce national debt. After lengthy discussions, a consensus was reached by the coalition parties and the Antall government adopted the legal measures for restitution (Law No. XXV of 1991, Law No. XXIV of 1992 and Law No. XXXII of 1992). The original plan of restoring properties and firms to their own genuine owners (or to their heirs) was discarded, and instead the principle of partial compensation was applied by the issue of option rights or bonds that could be exchanged for state assets that were scheduled to be privatised. Thus, losses of property occurred after 1948 were rectified, not as individual right nor completely, but on grounds of equity and only partially. Some 1.8 million claims for compensation were submitted, and the state disbursed bonds to a total value of HUF 250-300 billion in redress to these applicants. The payment had an upper limit of HUF 5 million per item of property or per person. The compensation bonds could be used to purchase private dwelling, establish a life annuity, obtain shares in state-owned companies, or in certain land purchases. The whole process together with privatisation resulted sweeping changes in pattern of property ownership in the agriculture and contributed to the strengthening of small farms, which worked on a part-time basis, as a way of supplementing income from a non-agricultural primary occupation.[12]

The Horn government (1994-98) changed the privatisation strategy followed by József Antall and Péter Boross between 1990 and 1994. It placed great emphasis on speeding up of the sell-off by the application of market mechanisms. The sale procedure was simplified, and foreign capital was encouraged to participate in the process of marketization. This proved to be successful because foreign investors came to play a bigger role especially in the energy, telecommunication and banking sectors. By the mid-1990s, the whole energy sector was passed into foreign ownership.[13]

The rapid large-scale privatisation resulted in substantial changes in the pattern of ownership within the economy. Whereas in 1989 enterprises in the state sector had still accounted for 80 percent of GDP, with privately owned firms contributing 20 percent, by 1997 the state-owned sector only generated 30 percent and the private sector 70 percent. The majority of foreign direct investments came from Germany, with a share of 28 percent, followed by the USA (26 percent) then Austria and France (10 percent each). Hungary was the preferred destination for foreign investments in the entire East European region, attracting an inward flow of around USD 17 billion up to the end of 1997.[14] Berend stressed the importance of “greenfield” investments made by General Motors and Suzuki in the early 1990s. The automotive industry emerged as a symbol of change. GM started to produce cars in Hungary: in March 1992, the first Opel Astra rolled off the assembly line; 15,000 followed annually. Another successful example was the launching of Magyar Suzuki in August 1992, producing 60,000 cars per annum in its newly built factory in Esztergom, employing 1,500 workers.[15] In 1994, Audi built a new car manufacturing plant in Győr and started to produce engines and from 1997 vehicles. By the end of 1997 more than one million private firms were established in the country of which 792,000 were estimated to be active. At the turn of the millennium Hungary had successfully transformed into a market economy, in which private ownership of industry and business played a dominant role. As a result of speeding up the sales of large state-owned companies, the revenues flowing from privatisations carried out between 1994 and 1997 amounted to HUF 1.1 trillion.[16]

Opinions differ significantly about the success of privatisation in Hungary. Most of economists emphasize the positive role of FDI inflows, which can improve the balance of payments and contribute to the transformation of the industrial structure in the host economy and the commodity composition of its exports. Furthermore, FDI promotes new technologies and management skills that can boost the competitiveness of enterprises.[17]

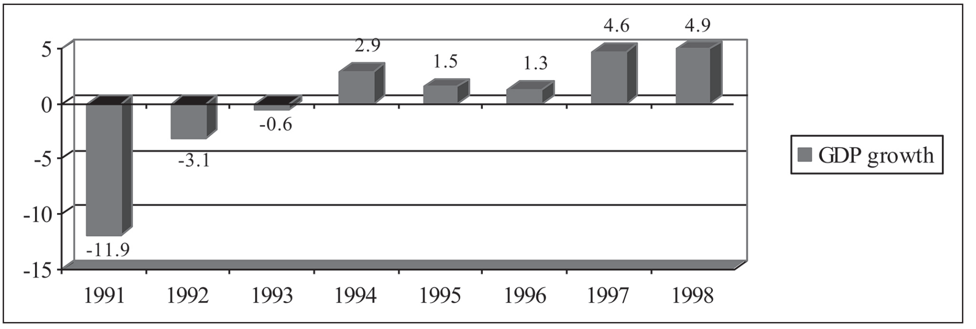
Foreign capital played a crucial role in the modernisation of the telecommunication sector in Hungary from 1990 onwards.[18] The former Communist regime had not been keen on free communication and therefore, their successors inherited antiquated telephone exchanges, with some dating back to the 1930s. Whereas Western norm was around 40 lines per 100 inhabitants, for Eastern Europe the average was only 10-20. The installation of modern telecommunication networks provided an opportunity to reduce the gap between Hungary and the advanced industrialised countries. In December 1993, a German-American consortium won the tender to purchase a 30 percent stake in Matav, Hungary’s state-owned telephone company, marking the largest privatisation deal in Eastern Europe to that date.[19] Thanks to the modernisation of the communication system, Hungary was able to remedy its backwardness, raising the density of telephone subscribers from 88 per thousand per inhabitants in 1989 to 258 per thousand in 1995, which was close to the European average.[20]

Several scholars underline the adverse effects of privatisation.[21] Botos pointed out that after the change of regime the majority of food-processing enterprises and shop chains were purchased first and foremost by foreign investors. “The latter often bought only a market and brought their own goods or, if they made a real purchase, they set the prices and dictated compulsory credit relations and deferred payment from a monopolistic stand”.[22] According to Csath, measures, which were introduced by the Socialist-Liberal government between 1994 and 1998 weakened the trade unions' bargaining power and workers' rights, whilst wages were kept relatively low that served the interests of multinational corporations.[23] It was a serious mistake to privatise the whole sugar industry because purchasers were mostly foreigners who bought domestic products at an unfavourable price. Nowadays only one sugar refinery remained in Kaposvár, whereas before 1989 Hungary had ten factories. The former was purchased by an Austrian company (Agrana), which could meet only one-third of domestic needs (300 thousand tons) and the remaining part had to import from abroad. In parallel with the process of rationalisation, the bulk of factories in the food-processing industry disappeared as a result of liquidation. To attract FDI, the Socialist-Liberal government granted tax incentives and concessions to large multinational companies instead of supporting the emergence of a new, relatively broad stratum of Hungarian entrepreneur-proprietors.

Báger and Kovács noted that due to the privatisation 30 percent of the national wealth disappeared in Hungary.[24] The substantial losses could have been compensated by the reorganisation of viable companies through a “gradual” marketization process, but this did not happen during the 1990s.

The inherited problems from state socialism, the difficulties of the transitional period itself and the altered foreign trade conditions led the Hungarian economy into a deep recession after 1990. In 1993 Gross Domestic Product (GDP) was 18 percent below that for 1989. Production then began a slow recovery and by 1996 GDP stood at 86 percent of the 1989 level. Meanwhile the non-socialist countries of Central and South-East Europe, which had once been at much the same stage of economic development prospered, therefore the gap between them and Hungary widened. Per capita GDP in 1995 was estimated at USD 5,700 for Hungary, whilst this figure was USD 17,500 that for Austria, USD 13,120 that for Spain, USD 10,195 and USD 8,870 that for Portugal and Greece.[25]

Graph 1. GDP growth in Hungary between 1991 and 1998 (percent)

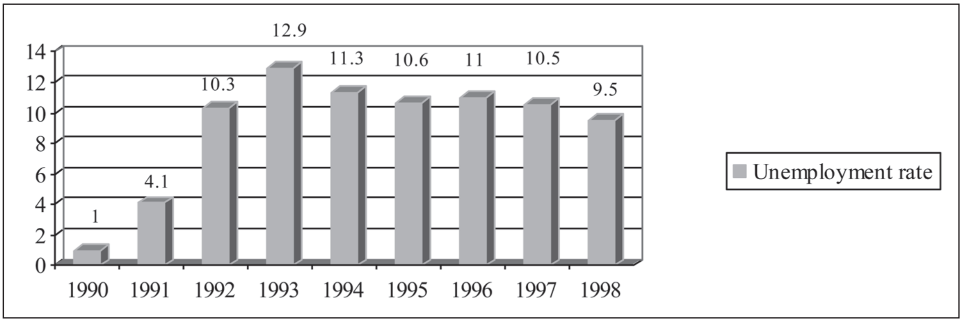


Source: Gulyás, László (2009): A magyar gazdaság története a rendszerváltástól napjainkig (History of the Hungarian economy from the change of regime to the present days). In. Gulyás, László (Ed.): A modern magyar gazdaság története. Széchenyitől a Széchenyi tervig. (The contemporary economic history of Hungary from Széchenyi to the Széchenyi plan). JATE Press. Szeged. p. 180.

Economic transformation had negative impacts on the industry. The initial downturn in the manufacturing was only slightly less severe, with a loss of around one-third of output over the period 1990-1993. Engineering experienced a sharp decline, but in 1996 it was outperforming the levels it had achieved before the change of regime. Other industrial branches, such as chemicals, textiles and clothing sectors could not overcome the shrinkage in their markets.[26]

As a result of structural crisis, unemployment reached its peak in 1993 – 13 percent of the labour force –, and it remained high (10 percent) between 1991 and 1998. With the collapse of the socialist system whole industries and huge agricultural cooperatives turned out to be worthless, from one day to another. According to György and Veress during the economic transition in Hungary, nearly 30 per cent of the workplaces disappeared, while only 20 percent disappeared in Poland and 10 percent in Czechoslovakia. The generous social policies such as early retirement schemes also exacerbated the problems in the labour market. By the time of the change of regime 800,000 employees went into early retirement, which inspired inactivity in the long run and meant an additional burden on the social security system.[27]

Graph 2. Unemployment rate in Hungary between 1990 and 1998 (percent)



Source: Gulyás, László (2009): A magyar gazdaság története a rendszerváltástól napjainkig (History of the Hungarian economy from the change of regime to the present days). In. Gulyás, László (Ed.): A modern magyar gazdaság története. Széchenyitől a Széchenyi tervig. (The contemporary economic history of Hungary from Széchenyi to the Széchenyi plan). JATE Press. Szeged. p. 178-180.

Agriculture was also hit severely by the economic downturn. The value of agricultural output in 1993 was barely 65 percent of the 1989 figure, and even in 1996 it had only recovered to 70 percent of the earlier level. Compared to the annual average between 1986 and 1990, grain production in 1996 decreased by 20 percent, pig stocks by 30 percent and cattle stocks by 43 percent.[28] The difficulties of the agrarian sector were further aggravated that in parallel with the decline of farm income, large cooperatives were abolished, which led to a massive unemployment in rural areas. As foreign trade was liberalised within two years, food imports increased rapidly, whilst the volume of agricultural exports continuously plummeted during the 1990s.[29]

Hungary's transformation into a market-driven economy took place against a background of extremely difficult external economic conditions, arising partly from the collapse of the established CMEA-markets, partly the European Union's protectionist policies in relation to agricultural products. The dissolution of the Comecon meant that Hungary lost its former economic relations and markets, which absorbed its mainly uncompetitive industrial and agricultural products from world market point of view. The lack of competitiveness of a substantial proportion of Hungarian goods posed additional challenge to the national economy. As a consequence of the adverse external circumstances, trade balance swung into a consistent deficit during the years 1990-1997. Nevertheless, by 1996 Hungary was conducting 70 percent of its foreign trade with industrial countries, over 60 percent with the member states of the European Union. Germany was our most important commercial partner with a share of 26 percent, followed by Austria (10 percent) and Italy (8 percent). Over the same period, the share of trade with successor states of the Soviet Union fell from 30 percent to 14 percent, so that trade with Russia was only 9.5 percent. Trade relations with neighbouring countries languished at the near-negligible levels of 1-4 percent.[30]

Table 1. Hungary's merchandise exports and imports according to group of countries between 1989 and 2000 (percentage point)

Group of countries	1989	2000
Exports		
EU-15	45.9	58.4
Central and Eastern Europe	11.0	7.7
Other European countries	30.9	11.2
Asia	5.9	16.8
America	5.2	5.4
Africa, Australia and Oceania	1.0	0.5
Total	100.0	100.0
Imports		
EU-15	39.2	75.1
Central and Eastern Europe	10.6	8.5
Other European countries	34.3	6.5
Asia	8.6	3.4
America	5.0	6.0
Africa, Australia and Oceania	2.2	0.5
Total	100.0	100.0

Source: Magyarország 1989-2009. A változások tükrében (Hungary 1989-2009. In the context of changes) Hungarian Central Statistical Office. Budapest, 2010.

In. https://www.ksh.hu/docs/hun/xftp/idoszaki/mo/mo1989_2009.pdf p. 84. Downloaded on 20th July 2020.

Table 2. The commodity structure of exports 1963-2000

Commodity group	1963	1965	1970	1980	1990	2000
Food, beverages and tobacco	21.4	20.7	22.3	21.8	21.2	6.9
Raw materials	4.5	3.9	4.7	4.7	5.9	2.4
Energy	2.0	1.4	1.1	2.5	3.1	1.8
Manufactured products	37.5	39.2	37.7	36.9	44.2	29.1
Machinery and means of transport	34.6	34.8	34.2	34.1	25.6	59.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics of centuries (Statistical curios in the Hungarian history). Budapest, Hungarian Central Statistical Office, 2002, p. 162.

Regarding the structure of exports, there were great changes in this field. The most remarkable change is that of exports of the agriculture and food industry, previously making up one-fifth of exports, had decreased to about 6% by the turn of the century".[31] At the same time the bulk of exports comprised machinery and means of transport and manufactured products.

Table 3. Inflation (Consumer Price Index), total annual growth rate (%) in the Visegrád countries, 1990-1998

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Czech Republic	-	-	11.086	20.813	10.039	8.991	8.759	8.596	10.698
Hungary	**28.370**	**34.818**	**23.656**	**22.464**	**18.868**	**28.305**	**23.469**	**18.305**	**14.154**
Poland	812.150	71.567	42.850	35.475	32.192	28.125	19.908	14.950	11.867
Slovak Republic	-	-	9.893	23.287	13.416	9.841	5.776	6.142	6.666

Source: OECD Data, Inflation (CPI). Total, Annual growth rate (%), 1990-1998.

In. https://data.oecd.org/price/inflation-cpi.htm Downloaded on 20th July 2020.

Recession was accompanied by rising inflation however, transition was not coupled with intolerable inflationary pressures. Although the rate of inflation substantially increased in 1990 and 1991, reaching 25 percent and

35 percent respectively, it was brought under control in 1994, but remained relatively high at about 25 percent.[32] Hyperinflation did not emerge in Hungary compared to the other Eastern and South-eastern European countries. For instance, consumer prices rose by 600 percent in Poland in 1990 and reached more than 9,000 percent in Yugoslavia. Bulgaria struggled with an inflation rate more than 1,000 percent in 1997.[33]

Due to overspending on government budgets, there was no success in reducing national debt. After being kept in check between 1990 and 1992, the general government gross debt jumped from USD 12 billion to USD 33.2 billion over the period 1993-1995. The positive side of fiscal policies was that reserves of foreign currencies were pushed up from USD 1.2 billion in 1990 to USD 6.7 billion in 1994 and USD 10 billion in 1997. At the same time spending was cut back from 8.4 percent of GDP in 1994 to 4.6 percent in 1997.[34]

Table 4. Central government debt, total (% of GDP) in Hungary

	1991	1992	1993	1994	1995	1996	1997	1998
Hungary	71.228	75.476	86.114	83.319	85.992	74.824	67.062	63.833

Source: The World Bank Data, Central government debt, total (% of GDP).

In. https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS?end=1998&locations=HU&start=1991 Downloaded on 20th July 2020.

Economic and financial stabilisation was carried out by the Bokros Austerity Package. Lajos Bokros, who was the Minister of Finance between 1995 and 1996 elaborated his programme with the support of György Surányi, president of the Hungarian National Bank. Stabilisation measures were launched on 12th March 1995, which involved the introduction of the crawling peg devaluation of forint by 9 percent on monthly basis and the imposition of an import surcharge of 8 percent to increase the income of the budget and narrow the import of consumer goods. The programme substantially reduced family allowances and froze nominal wages in the public administration. Finally, it abolished free tuition in the higher education and pharmaceutical public spending was cut back considerably.[35]

As a consequence of the stabilisation programme, real wages declined by 17 percent in 1995 and 1996 and reached 75 percent of the 1989 level. Between 1989 and 1997 the real value of net incomes of people in waged and salaried employment fell by 25.7 percent whilst those for the more than three million who depended on old-age pensions and annuities dropped 31 percent.[36] The deterioration of the living standards was inevitable during the transition process. Since there were no other sources, the Hungarian population had to bear the burdens of the economy's stability. The "shock therapy" applied during the economic transition resulted an increasing disequilibrium at domestic level. The overwhelming majority of companies ceased to exist, which coupled with the destruction of workplaces. At the same time both the volume of investments and consumption shrank considerably, therefore, domestic production was replaced by imports.[37]

As regards Bokros Package, opinions differ on the necessity of the austerity measures. Mainstream economists emphasize that thanks to the exceptionally strict steps, the risks of financial crises and the isolation of the country were averted. The programme also created the basis for a balanced, sustainable growth. The introduction of the crawling peg devaluation of forint and the imposition of import surcharge favoured to multinational companies, but the Hungarian society suffered a sharp decline in its living standards.[38] According to Gazdag economic consolidation led to a deep recession instead of achieving a sustainable growth. Due to the austerity measures, GDP growth halted, and inflation was rising instantly. The volume of exports fell from 16.6 percent to 8.35 percent.[39]

The proclamation of the privatisation campaign together with the massive FDI-inflow served as a basis for the export-oriented economic strategy in order to improve the external balance of payments. The latter made the national economy highly dependent on external booms and bound it very tightly to the EU.[40]

Foreign opinion, however – the World Bank, the IMF and the European Union – welcomed the radical move. In this way Hungary's credit-worthiness was preserved and its international reputation improved. Whereas the Socialist-Liberal government enjoyed a high prestige abroad, its austerity measures were rejected at home.[41] Because the package was very controversial and followed by social discontent and series of strikes, Bokros resigned in February 1996.

By the end of the parliamentary term macroeconomic indicators were showing an upward trend, but many people, whether living on wages or pensions could hardly feel it in their own domestic affairs.[42] Economic transition in Hungary was accompanied by the deterioration of living conditions in large segments of the society, which led to a disappointment by the majority of the population in the change of regime.

3. Concluding remarks

Taking into account of the difficulties inherited from the Kádár era and the unfavourable external circumstances, Hungarian economy was hit by a deep recession after the change of regime. The neoliberal economic policy based on the principles of deregulation, liberalisation and privatisation did not alleviate the negative impacts of the transition process, but instead further exacerbated the structural problems of the national economy. As a result of trade liberalisation, the bulk of the state-owned assets in the industry, agriculture and the service sector were passed in into foreign ownership. It was a serious mistake to privatise public utilities companies (such as gas, power and water providers) because due to the lack of competition, fees in the service sector were higher than in other Visegrád countries, including the Czech Republic, Poland and Slovakia. The consequence of large-scale privatisation was that the pattern of ownership altered significantly within the economy. Between 1989 and 1997, the share of state sector in the Hungarian GDP fell from 70 to 30 percent, whereas private enterprises in the industry and service sector played a dominant role. Despite of speeding up the sales of large state-owned companies, general government gross debt remained high (over 80 percent), which meant an external vulnerability. FDI inflows contributed to the temporary improvement of the balance of payments and promoted the transformation of industrial structure in the national economy together with the commodity composition of its exports. They played exceptionally important role in the penetration of new technologies and management skills within the corporate sector.

Although fiscal balance was achieved by the Bokros package that paved the way to a more sustainable economy in Hungary, it had negative impacts on both the investments and consumption. As a result of austerity measures introduced by the Socialist-Liberal government in 1995, there was a sharp decline in the living standards of the Hungarian society, which increased the general disappointment in the new regime.

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